

Business Daily



Australia's leading business commentator

'Stay-ahead' Stevens breaks the mould

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S&P/ASX200

5143.7 **-12.50 -0.24%**

The market closed lower but recovered some ground after the Reserve Bank cut the cash rate to a record low.

ALL ORDINARIES

5122.7 **-11.10 -0.21%**

OVERSEAS

DOW JONES **14,968.89** **-5.07**

HANG SENG **23,047.09** **+132.00**

NIKKEI **14,180.24** **+486.20**

BIG WINNER

MIRABELA **18c** **+1.5c +9.09%**

BIG LOSER

COCA-COLA **\$12.93** **-\$1.52 -10.51%**

RBA slashes cash rate to 2.75% ...

THE ECONOMY
Jeff Whalley

THE Reserve Bank's move to cut the official interest rate to a historic low is a "seminal moment" that should usher in a new era of confidence, economists believe.

And the central bank may cut the rate deeper still into record-breaking territory as it fights to soften the impact of the high Australian dollar, they say.

Analysts believe governor Glenn Stevens has left the door open for more cuts if inflation remains in check, saying benign living costs provide the scope.

The RBA surprised many economists yesterday with its decision to cut the cash rate by 0.25 percentage points to 2.75 per cent. In a survey by Bloomberg ahead of the move, just eight of 29 economists tipped a cut.

It is the first time the cash rate has fallen below 3 per cent since the "emergency low" it hit during the financial crisis — since it started formal monthly reviews early in the 1990s.

It is also the first cut this year, following four reductions last year. Since its peak in this cycle late in 2010, the rate has fallen 2 percentage points.

Mr Stevens said growth in Australia was "below trend" and a culprit was the strong dollar, which was "little changed at a historically high level over the past 18 months".

The dollar slipped as the RBA announced its decision, losing US0.6c. Last night it was buying US101.8c — its weakest level since February.

Mr Stevens said the dollar had remained high despite a decline in export prices and interest rates. "Moreover, the demand for credit re-

portunity "to speed up the baton pass" to the non-mining sector.

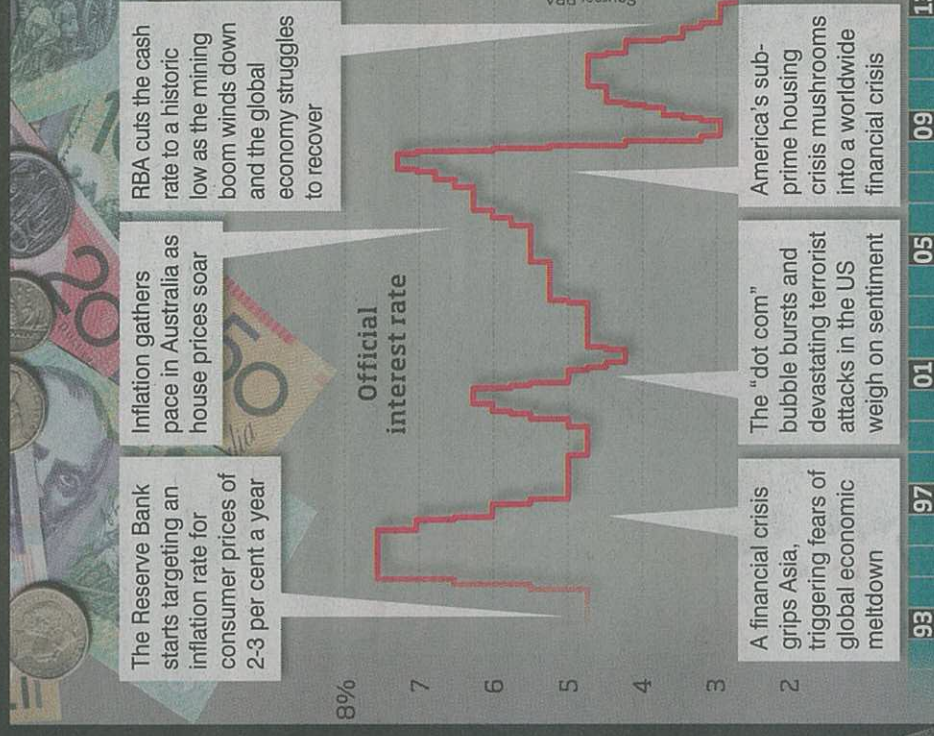
Mr Aird said he expected another cut in August. "It appears that the RBA sees some residual ability to cut rates again," he said.

Deutsche Bank chief economist Adam Boyton, one of few to call the cut, said Mr Stevens' mention of unemployment showed he was concerned about slow jobs growth. He noted the

RBA governor GLENN STEVENS

“The demand for credit remains, at this point, relatively subdued”

HOW LOW CAN HE GO?



The Reserve Bank starts targeting an inflation rate for consumer prices of 2-3 per cent a year

Inflation gathers pace in Australia as house prices soar

RBA cuts the cash rate to a historic low as the mining boom winds down and the global economy struggles to recover

A financial crisis grips Asia, triggering fears of global economic meltdown

The "dot com" bubble bursts and devastating terrorist attacks in the US weigh on sentiment

America's sub-prime housing crisis mushrooms into a worldwide financial crisis

What's weighing on the RBA

- The Australian dollar is still close to its historic highs
- Demand for loans remains weak
- The unemployment rate is rising as the labour force grows
- Inflation is lower than expected
- The eurozone is still mired in recession

... and NAB cuts to the chase

BANKING
Jeff Whalley

THE major lenders have taken advantage of falling funding costs to pass on the full rates relief bestowed by the Reserve Bank.

In a development expected to stimulate spending by easing the plight of home buyers, three of the "big four" have cut 0.25 percentage points from their standard variable mortgage rates.

National Australia Bank moved first yesterday, cutting its standard rate to 6.13 per cent, and the Commonwealth Bank quickly followed, cutting its rate to 6.15 per cent.

Westpac was next, cutting to 6.26 per cent, while subsidiary Bank of Melbourne has also cut its standard mortgage rate to 6.15 per cent.

ANZ will deliver its decision after the group's monthly rates review on Friday and is expected to follow the other banks.

NAB has now had the lowest standard variable rate among the major banks for almost four years.

The move to pass on the rate cut comes as the banks' funding costs have eased and amid a reporting season characterised by record first-half profits.

"Over the past few months we have seen some easing in new wholesale funding but at the same time competition for deposits," Westpac group executive of retail banking Jason Yetton said. He said deposits were "the main driver of our overall funding costs".

CBA retail banking services executive Matt Omyrn said the bank's decision took into account "both domestic and offshore factors".

Leaders hail surplus

First Napthine Budget pleases industry groups

Claire Heaney
 INDUSTRY leaders have welcomed the Napthine Government's first Budget as sound, applauding its pursuit of a \$925 million surplus. And ratings agencies Standard and Poor and Moody's have maintained the triple-A credit rating on Victoria, despite downward revisions of revenue largely due to a dwindling share of the GST.

While broadly pleased with commitments to infrastructure, business lobby groups said the Budget stopped short on a number

of key issues. Master Builders of Victoria executive director Brian Welch said infrastructure commitments would create much-needed jobs. "Our industry stands ready, willing and able to build the schools, hospitals and transport infrastructure today's Budget funds," he said.

Mr Welch said the East West Link road would ensure much-needed skills, such as those in tunnelling,

would be retained. Real Estate Institute of Victoria spokesman Robert Larocca said the Budget was sound and would benefit home owners. But, he said, abolition of the first home owners grant for existing homes would mean those in regional Victoria and affordable suburbs would be worse off.

buyers of the grants abolition," Mr Larocca said. He said the Budget should have matched the cuts in the grant with further reductions in stamp duty. Victorian Tourism Industry Council chief Dianne Smith said the \$24 million earmarked for marketing was welcome but an expansion of the Melbourne Convention and Exhibition Centre remained unfunded. "We are particularly pleased with the commitment to fund Victoria's China Tourism Strategy, to ensure that we can capitalise on the potential future growth of one of our most important markets," she said.

Road pledge lauded

Jane Harper

BUSINESS leaders have heralded crucial steps towards relieving the state's growing transport system.

Agenda Victoria leaders, who last month named infrastructure investment as a top priority for the state's future, warmly welcomed yesterday's Budget commitments. Bank of Melbourne chief Scott Tanner praised the pledge to start building the first part of the long-awaited East West Link road.

"The east-west road tunnel was among a range of infrastructure projects identified by Agenda Victoria as vital to Victoria's future prosperity," Mr Tanner said. "A clear timeline for the completion of major infrastructure projects will improve business and consumer confidence."

Business leaders came together over the past year for the Agenda Victoria project — initiated by the Bank of Melbourne and the *Herald Sun* — to create an economic blueprint for the state. The Government will spend \$294 million over the next two years to start building the 6km eastern section of the road.

Victorian Employers' Chamber of Commerce and Industry chief Mark Stone said the commitment to the first stage of the link "recognises the importance of advancing state-shaping infrastructure projects". Infrastructure Partnerships Australia chief executive Brendan Lyon gave the Napthine Government "full marks" for the Budget.

"The East West Link is one of the nation's most important road projects, but it has been sitting on the shelf since 2008, because of a lack of budget capacity to get it going," Mr Lyon said. The Budget allowed \$15 million for new trains and station upgrades and \$110 million to expand the Port of Hastings.



Any boost in infrastructure employment opportunities and from a retailer's standpoint, hopefully will result in increased retail sales

Australian Retailers Association executive director
RUSSELL ZIMMERMANN



Our industry stands ready, willing and able to build the schools, hospitals and transport infrastructure today's Budget funds

Master Builders director
BRIAN WELCH



The Budget gives a much needed focus on boosting productivity through significant infrastructure investment

Ai Group Victorian director
TIM PIPER



Debut: Premier Denis Napthine with the Budget papers at Parliament House yesterday. Picture: TIM CARRAFA



The Napthine Government gets full marks for today's budget, because it tackles waste and uses the savings to bring forward the massive East West road project

Infrastructure Partnerships chief
BRENDAN LYON



Anything that gives people the confidence to put their hands in their pockets and spend money to support small business, and struggling retailers, is a great thing

COSBOA chief
PETER STRONG



The failure to support the development of MCEC will have flow-on affects to the \$16 billion Victorian tourism and events industries

Victorian Tourism Industry Council chief
DIANNE SMITH

Infrastructure investment a foundation for future

VECCI says the Victorian Budget's focus on new investment in infrastructure sets the foundations for economic and employment growth, while remaining fiscally responsible.



Through its \$294 million capital commitment to the first stage of the East-West Link, the Government has recognised the importance of advancing state-shaping infrastructure projects.

The East-West Link is the No.1 infrastructure project for Victoria because by reducing congestion, it will

increase the capacity of Melbourne's transport network, unlock productivity gains for business and improve social amenity, particularly in Melbourne's expanding residential areas.

We now call on the Federal Government to commit to funding its share of this important infrastructure project.

Business will be hoping for an announcement in the coming months. The State Government's commitment to the East-West Link has been complemented in this Budget by new funding for road upgrades and maintenance across the state, the removal of level-crossings and an expansion in rail capacity.

The new output and asset funding for education and schools is also positive and recognises the importance of investing in Victoria's skills capacity from early childhood learning to the

TAFE sector, and to assist students with disabilities. An investment of \$18 million toward an international education strategy will benefit the education sector directly, with flow-on benefits to the tourism industry.

VECCI also welcomes the \$8 million boost to regional tourism promotion and renewed funding to advance Victoria's international education interests, as well as funding to create new business and export opportunities. Regional Victoria has not been forgotten in the

Budget with a range of initiatives to support regional and country roads maintenance and upgrades. The Budget also provides important support for regional healthcare and community services.

It is because the Government has kept a tight rein on its expenditure and focused its outlays on strategic, state-shaping investment that state debt has been kept in check. This will safeguard Victoria's AAA credit rating and help to set the foundations for future state building.

Agenda
 VICTORIA
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