

Global slowdown set to linger in 2009

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The global economic slowdown looks set to linger into 2009 as developed countries start to lift interest rates to fend off inflation, independent forecaster Access Economics says.

It says next year looms as the time of greatest global risk, especially if emerging economies slowly succumb to some of the “illnesses afflicting the rich world”.

Access Economics economist Chris Richardson said China remained crucial to the global outlook.

“If and when China slows markedly, then the downturn will become a genuinely global one,” Mr Richardson said in Access Economics’ quarterly business outlook.

As it stood, he said, the roll call of the wounded from the slowdown so far reads like a “who’s who” of Australia’s trading partners.

“The US is in recession, and the ‘R’ word has already been bandied around as a risk for Japan and New Zealand, with the UK slowing too,” he said.

Meanwhile, he said the Reserve Bank of Australia has been doing its “darndest to reel in inflation”.

“The reserve will be happy with the slowing in retail and housing construction that its rate hikes have engineered, but the jump in commodity earnings and yet another huge tax cut means if cash rates do budge by end-2008, they are just as likely to go up as down.”

High interest rates and a strong dollar, but still rampant demand for Australia’s resources means that the country’s two-speed economy looks set to diverge even further.

Mr Richardson said there was a line extending from Brisbane to Busselton that roughly separated the states and territories which sell to China from those which compete with China.

“It separates out the regions that are most and least at risk from the current combination of high interest rates and high exchange rates.”

He said the resource states - Queensland, the Northern Territory and Western Australia - have the fastest growth now and in immediate prospect.

He said farming and mining were the only two sectors that were expected to see stronger output growth in 2008-09 than in 2007-08.

“For farmers this is mostly a gift from God, with better rainfall generating a wheat crop 80 per cent above seen last year,” Mr Richardson said.

“For miners, their acceleration in growth comes from a massive lift in spending on new capacity in mines and infrastructure in recent years, now coming onstream as rising output of nickel, liquid natural gas, copper, iron ore, coal, oil and gold.”

In every other major sector Access expects to see weaker growth in 2008-09 than in 2007-08 with the biggest fall in the finance sector.

“The finance sector lies at ground zero of both high interest rates and the global credit crunch,” Mr Richardson said.

“It is already slowing sharply, and is expected to have a rotten year.”

Growth in the manufacturing sector is also expected to “tail away” against the backdrop of 12-year high interest rates, a 25-year peak in the Australian dollar and record petrol prices, leaving it facing tough competition from Asian imports.

The growth in wholesale and retail sectors are also forecast to be a fraction of what it was in 2007-08 despite another huge cut in income tax.

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