



## Are the Hunter's economic storms abating?

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The following opinion piece appeared in the *Newcastle Herald* on 17 July 2015

The April 2015 storms brought a lot of damage to the Hunter Region and were, on some indicators, worse than the 2007 'Pasha Bulker storm'. In terms of economic impacts, however, these storms are insignificant compared to the other storm facing the Region: the downturn in the mining industry. This storm has endured for well over 12 months.

The height of this storm saw regional unemployment soar above the NSW and national averages, peaking at a 15-year high of one-in-ten unemployed people last March.

Having just completed the Hunter Research Foundation's (HRF) latest Hunter Economic Indicators publication, I was encouraged to see signs that the Hunter's economy is emerging from the worst effects of this storm. We may at last be seeing enough growth in its non-mining industries to offset the mining industry downturn.

At the end of May, the Hunter's unemployment rate was 9.1 per cent, down from its peak (10.3 per cent) last March. Importantly, this was due to an increase in the number of people employed – rather than a decline in the number of people looking for work. The decline in the unemployment rate has been even greater amongst the Hunter's young people, which, since March, has fallen from one-in-five 15-24 year olds to fewer than one-in-six.

This improvement has been supported by lower interest rates and a lower Australian dollar (\$AUD). In effect, the prices for our products on global markets have fallen 20 per cent over the past year, improving our competitiveness vis-à-vis foreign rivals. This currency depreciation has helped all our exporters, from service providers to manufacturers and miners.

Lower borrowing rates are also boosting residential investment in the Hunter, which has led to a rise in the number of people employed in construction and associated industries. The improving labour market, coupled with low interest rates, has also seen increases in house prices in the Hunter. There is increasing evidence of a 'two-speed' housing market in the Region, with Newcastle and Lake Macquarie house prices growing much more than house prices in the rest of the Hunter.

Another positive development for the regional economy is improving consumer confidence. HRF's surveys reveal that consumer confidence in the Hunter has reached highs not seen since mid-2009 (after the lows of the Global Financial Crisis). In contrast, Australia-wide consumer confidence is reported to be at its lowest level in a year. Part of this contrasting behaviour reflects the contrasting performance of the Australian and Hunter labour markets – as the Hunter's labour market has improved, so has its consumers' confidence.



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In addition to lower unemployment, other confidence boosters include lower cost of living pressures and, for indebted households, lower interest rates. The Federal Budget, announced in May 2015, has also lifted confidence, as the Budget was seen as more household-friendly than expected.

However, unlike the April 2015 storm, our economic storms may not be fully over. Australia and the Hunter still face economic head-winds, in particular a weakening of the Chinese economy and collapsing stock market, which would have a direct impact on demand for our exports. There is also a potential headwind in the form of a Greek exit from the euro, which has been roiling financial markets and may continue doing so.

At the regional level, while an improving labour market is a welcome development, we still have a long way to go to get back to the 6 per cent unemployment rate achieved during the early to mid-2000s, prior to the mining investment boom. To get back to this level requires further growth in our industries, especially the non-mining sectors.

Another sign that the job remains unfinished is the low level of confidence among Hunter businesses. Our research continues to show that more Hunter businesses expect their performance to deteriorate than to improve over the next year. More encouragingly, business confidence has lifted in recent months, as improving household sentiment has translated into greater spending and therefore better business performance.

So, what can we expect of our economy? In terms of the labour market, there are two positive signs. First, Hunter businesses are telling us that they plan on hiring more staff over the next year. After steadily declining over the past 15 months, there was a notable increase in the number of businesses expecting to hire more workers over the next 12 months. Second, there are a smaller number of businesses telling us that a lack of sales is their major impediment to future growth.

This suggests a degree of cautious optimism about the Hunter's labour market going forward.

These positive signs, while perhaps not signalling a total clearing away of the Hunter's economic storm front, offer a sunnier outlook than previous sets of indicators. At HRF we will continue to keep a weather-watch as the Hunter works towards a more sustainable economic future.

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