

The Canberra Times Forum



A FIGHT TOO FAR

Parents take on the schoolyard bullies

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UNJUST EXPECTATIONS

Desperate times at the DPP's office

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Interest rate cuts have boosted consumers' confidence despite a gloomy economic outlook, but will Monday's handouts circulate to stimulate? **LYNNE MINION** reports

As economists worldwide add their voices to predictions of a looming depression, for Matt Ashton this is a very uplifting time. With this week's interest rate cut delivering more savings on his mortgage repayments, he is in the money despite all the talk of financial doom.

But Ashton wasn't always marvelling at his good fortune. The Australian Bureau of Statistics analyst bought his Page house 18 months ago with a loan of about \$265,000 and before he'd even made his first repayment the initial rate rise occurred.

Before long – and another three rate rises later – he was starting to get worried and rueing his decision to go variable. He reined in his spending by walking to work, eating out less often and buying fewer takeaway meals, but even though he'd budgeted for rate rises of 2 or 3 per cent, "it was really getting up to my comfort level".

Now he's laughing all the way to the bank with savings of about \$500 to \$600 a month from the high mark and is pretty pleased he didn't take on a fixed-rate mortgage.

"I just had a little inkling that wouldn't be such a good idea," he says. "I just didn't like the idea of being locked into a number when it seemed to be so volatile. And even though it was all going up at the time I just had this little thought at the back of my mind that volatile things go down."

And so they have. His bank, ANZ, hasn't passed on this week's full 1 per cent interest rate decrease, it's dropped it by 0.83 per cent, but the savings are all adding up. Ashton is even hoping for further windfalls.

"The volatility's still there. I might hang around and stick with variable for the time being. It might creep a little bit lower."

So why the sunny outlook? It seems awfully positive during a time of deep economic uncertainty.

With the experts speculating about "dark clouds" and a "perfect storm" on the economic horizon the forecast seems gloomy, but there are those who are reaping rewards.

Interest rate cuts, the Government's upcoming stimulus package payments and lower petrol prices should have some Canberrans rejoicing in their providence.

Casual teacher Mary Broom says she has never had any intention of sequestering herself in the Hawker family home, which will cost about \$200 a month less in mortgage repayments, worrying about the vagaries of the economy.

"I can't see the point of stressing out over it – it's all cyclical," Broom, 58, says, as Oprah Winfrey beams from aisles of televisions in Harvey Norman's Fyshwick store. "It'll come and go and there's no point sitting at home being miserable and wondering where your next can of baked beans is coming from."

Husband John, 57, agrees. Joining his upbeat wife to shop for a wide-screen TV, the consultant to government departments says it's a buyer's market, with fierce competition between stores leading to some conditional confidence-boosting discounts.

"This is the third [interest rate cut] in four months, so it's all adding up," he says. "People are getting more purchasing power, providing they've still got jobs."

But consumer confidence is often a case of mind over the facts, with many people still wary of spending.

Rachel Hamson is strolling through the electrical section with daughter Ella, 16-months, and her 20-month-old cousin Ruby Turner, and the usually at-home mum says the recent financial bonuses don't tempt her to indulge in luxuries.

Hamson is celebrating her 28th birthday by shopping for a television for her aunt. Rather than lashing out on a fancy upgrade, however, the purchase is simply a replacement for

Pennies from Kevin

On Monday it will start raining dollars in the suburbs. In fact, it will be an unprecedented cash deluge for millions of families and pensioners.

Of the \$10.4 billion economic stimulus package announced by the Prime Minister in October, \$8.7 billion is to hit mailboxes from Monday in parcels of \$1000 and more. Single pensioners will receive \$1400, with \$2100 for pensioner couples. Carers will receive \$1000 for each person in their care. Families that receive Family Tax Benefit A will receive a tidy \$1000 per child.

Never before has an Australian government given away so much cash in one hit with no strings attached, no reform pain, in fact with an injunction to go forth and spend, spend, spend.

Will it work? Can the monster cash giveaway stave off a recession? Will it be splurged on booze, gambling and Christmas presents? Or will people salt it away for when the real crunch comes?

The point of the giveaway is to have people spend as much as possible to keep the economy ticking over. If people don't spend it at all then the exercise has been, in economic terms, a huge waste.

In the United States early this year a similar stimulus package was mostly pocketed, did not stop that country going into recession and, many argue,

an older model that has blown up. "It's more of a positive for mortgages and home-owners but not really a huge incentive for us to go and spend money, no," she says.

Despite having a variable interest rate on her Jerrabomberra home, she says the pennies from Kevin are absorbed by the high costs of everyday living. "I guess it's a saving but it's not a huge amount in the great scheme of things."

Gerry Harvey, co-founder and chairman of the Harvey Norman

chain, says these are curious times. As the nation faces a possible recession, credit-card debt sits at its highest level, and global share markets contend with free falls, some people have never had it better. "You have got a very unusual financial crisis, it's never been seen by the white man before, or the black man, or any other man," Harvey says.

Harvey reckons there's no point in presuming the worst because nobody really knows what's going to happen and any predictions are

"bullshit". In advice that might make your financial adviser perspire, he says pessimism isn't the solution and encourages territorians to "attack each day as though it's not Armageddon".

It's an argument for merry Christmas shopping from the head of a retail giant. "Rather than go out and fret, well it mightn't happen so worry about it when it does," he says.

Dr Simon Kelly, of the National Centre for Social and Economic Modelling at the University of Can-

WILL THE STIMULUS WORK?

By DAVID ALEXANDER

particular target groups, and they had no continuing budget impact.

A contrasting approach to developing economic stimuli was given recently by the Reserve Bank governor Glenn Stevens, who stressed that any further spending should be "worthwhile, and I emphasise worthwhile". He believes that the quality of spending is important and useful in bolstering the effectiveness of stimulus packages.

Prominent US economist John B. Taylor from Stanford University has said that to be effective, stimulus measures should be permanent, pervasive, and predictable. This is the view that if people see through a handout, if they sense that it's too good to be true, if they feel that a handout is a current quid for later tax quo, then they will not behave like confident consumers and spend as intended.

ANZ chief economist Saul Eslake says that it is hard to say exactly how effective this stimulus will be, but thinks it will be enough to keep growth positive in the December quarter.

"If you thought that without this package December quarter GDP might

have been say, negative 0.75 per cent or so, then if most of it is spent then that should be enough to keep it on the positive side of the ledger," he told *The Canberra Times* yesterday.

He points to the targeted groups – pensioners, low-income families – as having a high propensity to spend.

While there are reports of expected higher alcohol sales and gambling activity, Eslake says that in economic terms this doesn't matter so much. "From a strictly national accounting point of view it doesn't really matter what they spend it on as long as they spend it," he says.

Of course it will be extremely difficult to say whether the stimulus has worked or not as there are so many other complicating factors, such as rate cuts.

If growth stays positive the Government will claim that the stimulus was a crucial success, and if growth goes negative critics will say that it was a wasted opportunity.

The Government is now hoping desperately that consumers go out and spend all of their handouts. Whether they will or not is a matter for psychology rather than economics.

■ David Alexander is Economics Editor.

bera, says the Government certainly wants Australians to spend and bolster the economy. What it doesn't want is for additional monies to be put away for a possible rainy day.

"The Government's hoping that they won't," Kelly says. "They're really hoping that people will spend a lot between now and Christmas, so Harvey Norman should do really well. That's the idea."

Which is all well and good in economics theory, but many people are concerned about their 2009

STRUGGLING

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THRIVING

Tania Waterworth took part in a WorkVentures program, received computer and job skills training, and took a giant step. She gained computer literacy and a clearer path to her potential. Microsoft, partnering with WorkVentures, has helped thousands of Australians like Tania since 1986. For the rest of her story and more facts, visit www.onmyway.com.au

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