



## *Economic ripples reach our shores*

Recently, we have all seen evidence that Australia is not immune to the flattening of global economies which began with the US at the epicentre and has since radiated to the UK, Europe and is now being widely felt

across Australia. Thanks to this ripple effect, Australia is well and truly following the rest of the world into recession. What we saw in the US six months ago is impacting Australian industry, business and consumers now.

When consumer sentiment falls flat, the business sector struggles, notably retail and housing. When combined with a reduction in the supply of credit to businesses by banks (i.e. lending), business will scale back their expansion plans (building more shops, more mines, employing more staff).

And when this happens, we expect to see unemployment escalate. In the US unemployment has gone from around 5% to around 9%. Unemployment in Australia has risen from 5% to just under 6%, but with the ripple effect still in play, this will rise over the next six to 12 months.

Logically, a rise in unemployment results in reduced spending and investment by consumers, flat or falling house values and reduced investment by businesses.

### *In fact, Australians are spending less and saving more*

#### **The bright side**

While this might sound like a lot of doom and gloom, there is an upside. Housing affordability is the best it has been in over 10 years, caused by a combination of very low interest rates and a moderation in property values. The housing sector will likely eventually pull us out of recession in 2010.

There will be good times again. With this in mind, if people have got the money or borrowing capacity, are comfortable with the security of their job and are looking to invest for the future, it is worth remembering that equity and property markets will, in time, recover.

#### **Storm clouds have a silver lining**

Ironically, after the devastation of the floods that have harassed our region in the past months, there is a silver lining from a local economic sense. The injection of insurance dollars into the region will ensure continuity of work for local business, tradies and suppliers.

Carpet layers are busy, cabinet makers, fencing and kitchen suppliers will all be in demand. I believe this will help sustain this region through the challenging times still to come.

#### **Money makes the world go round**

I remember the old saying that "Money makes the world go round". The global financial crisis has reinforced that this old saying is true, and specifically the lack of money can make the world stop or slow, which is what we are experiencing now around the world with countries falling into recession, some well known global businesses failing, consumer and business sentiment at record lows and unemployment rising.

#### **Will interest rates go up or down?**

There is no clear consensus in the market about the direction of official interest rates in Australia. There is an equal number of economists forecasting that the Reserve Bank of Australia (RBA) will increase official interest rates, as there are economists forecasting the easing of interest rates over the next six to nine months. The direction of interest rates will depend on how the Australian economy responds to the fiscal stimulus (government spending initiatives) and monetary stimulus (reduction in official interest rates) and specifically whether unemployment, consumer and business confidence in the Australian economy deteriorates further.

#### **Byron Fuller appointed Chief Financial Officer**

I have been managing the responsibilities of two executive positions since my appointment as Chief Executive on November 3, 2008, those being the Chief Executive role and the Chief Financial Officer (CFO) role.

I realised earlier this year that this was not sustainable given the degree of attention required to be dedicated to each role, in implementing BCU's strategic plan and the associated important initiatives over the next few years.

In the past months I have conducted a search for a strong candidate to fill the role of CFO. In this regard I am very pleased to advise that Byron Fuller has recently joined BCU.

Previously heading up Suncorp's Group Capital Management division, Byron was responsible for managing the capital of the group, including the bank, insurance business and the wealth management business of Suncorp. Needless to say, he has been very busy in the past year raising capital for the group. Before this position, Byron headed up Suncorp's Group Market Risk division.

I feel very fortunate to have been able to attract Byron and his young family to BCU and the Coffs Coast as he will complement and strengthen the business professionalism, values and skill depth of BCU.

Lyndon Kingston, BCU Chief Executive