

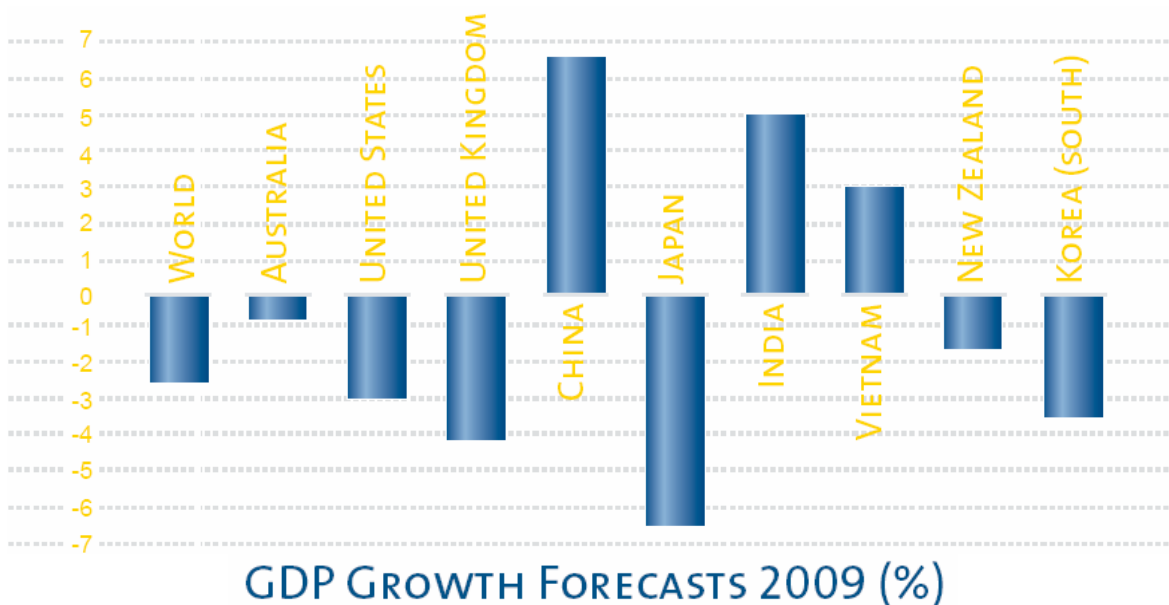
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No Green Shoots

Short-term economic indicators negative on growth prospects for Australia

Recent data indicating a slowdown in the pace of economic deceleration should not be interpreted as the start of a global recovery. A new report released today by leading credit reporting and business intelligence firm Dun & Bradstreet (D&B) states that the outlook for the world economy over 2009-10 remains poor and the downside risk to Australia remains considerable as a consequence.

The quarterly *Global Economic & Risk Outlook Report* states that governments and central banks have not yet succeeded in breaking the adverse feedback loop between the financial system and the real economy. This link makes it imperative to revive the banking sector, as the crisis which began in this industry has spread to other areas of the financial sector, as well as to emerging markets in the past six months.



Data for Q1 2009 confirmed a continuing economic downturn. Industrial output fell rapidly as a lack of financing and a slump in global demand cut exports and investment. This in turn resulted in higher unemployment and a rapid drop in consumer spending. Furthermore, the widespread contractions experienced in both developed and emerging economies exceeded market expectations – the UK's fall was the steepest in thirty years and Germany and Japan's declines were the most significant since records began in the 1970s and 1950s respectively.



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A continuation of these trends across many of the world's major economies will continue to restrict the prospects of an economic recovery.

More recent data, including a significant upturn in capital markets experienced during April and early May, has led to conclusions that the slowdown is levelling off. The other somewhat positive element is that the Chinese market seems to be offering a degree of stimulation to global trade through its robust fiscal stimulus package.

The country increased imports of commodities during April however this may simply reflect China's eagerness to exploit lower commodity prices.

Country	Contraction (%)
United States	1.6% q/q
United Kingdom	1.9% q/q
Japan	4.0% q/q
Germany	3.8% q/q
<i>Contractions in economic growth Q1 2009</i>	

In response to these trends, the D&B report notes cautious optimism that the pace of the global economic deceleration is weakening. It also states that those countries implementing robust fiscal stimulus packages or exporting minerals to China will be in a stronger position to weather the global economic storm.

However the report warns against interpreting recent events as the start of a recovery, instead suggesting that the recent capital market upturn is likely to be a market correction rather than indicating improved fundamentals that are capable of pulling the global economy out of recession. Consequently, the outlook for the global economy to the end of 2010 remains downbeat, with a deep contraction of global GDP forecast for 2009 (-2.6%) and only a very modest recovery (1.1% GDP growth) expected in 2010.

According to Christine Christian, D&B's CEO, the global economic outlook remains overwhelmingly negative.

"The uplift in sentiment experienced in recent months has resulted in a number of suggestions that the global economy is on its way to recovery," said Ms Christian.

"However D&B suggests that the events of recent months are a correction to market over-reaction rather than the start of a broad-based economic recovery.

"Although we are cautiously optimistic that the pace of the global economic deceleration is weakening, the outlook for the global economy over 2009-10 remains poor. We anticipate a deep contraction of global GDP in 2009 and only a very modest recovery in 2010."

Like in other parts of the region, the downturn in Australia is being driven by the sharp cutback in the availability of credit; corporate and household balance sheet consolidation; and an abrupt collapse in export demand.



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At least in the short-term, the downside risks for Australia remain considerable. In particular, if the global economy takes longer to recover than currently expected and international demand for commodity exports remains low in comparison to previous years, economic growth will continue to be impacted. In addition negative wealth impacts could curtail consumer spending even further than anticipated. Economic growth is expected to contract by 0.9% in 2009.

Looking ahead to 2010 reveals that the recovery is likely to be muted as households and businesses continue to rebuild their balance sheets. D&B expects rising unemployment to reach 8.5% by the end of 2010 – this will dampen consumer spending and accordingly the forecast for growth in 2010 is just 0.7%.

However according to Ms Christian there are some signs of promise.

“Australia’s financial sector is stronger than in other countries and the government and central bank acted quickly to implement a macroeconomic policy response. Therefore the economic decline shouldn’t be as steep as other developed economies are experiencing.

“D&B forecasts that real GDP will contract by just less than 1.0% in 2009. Fiscal expansion and looser monetary policy conditions should combine with a modest upturn in global activity to stabilise the Australian economy in Q4 2009.”

Media Notes

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