Morgans: We’re recovering from a ‘growth recession’

CORPORATE advisory and stockbroking firm Morgans has identified that the Australian economy is in the early stages of recovering from what it calls a ‘growth recession’.

Morgans’ research suggests this means economic growth without employment growth indicating business is working through productivity gains – but is also negatively impacted by Australia’s relatively inflexible labour markets.

“What this means is that although the Australian economy has been growing it has been growing below the historical trend growth rate, of circa 3.2 percent, needed to generate net employment,” executive director for Morgans Corporate Advisory division, Philip Lee said.

“Hence, unemployment has been increasing despite economic growth in absolute terms. We forecast economic growth should accelerate to around 3.0 percent this calendar year.”

Mr Lee said this would be up from the 2.7 percent growth mark of 2013.

“Which suggests that the recovery in Australia will be what other countries call ‘a jobless recovery,” he said.

Mr Le said any recovery “will inevitably create opportunities and threats for Australian businesses” however a jobless recovery effectively suggests improved productivity.

“Businesses continue to suggest to us that one of the biggest challenges to Australian growth at present is its relatively inflexible labour markets,” Mr Lee said.

“In time this will likely lead to some form of Government intervention but in the meantime businesses will need to adapt and focus on productivity initiatives and innovation.

“Business confidence is key to support and accelerate growth. As the saying goes, success breeds success.”

What may positively surprise Australian economic forecasters is better than expected growth from its key international trading partners, Mr Lee indicated.

“The United States economic growth is being driven by improved consumer spending, a better market for housing, and stronger export growth,” he said.

“China purposefully continues to transition from export driven growth to domestically driven growth, which is forecast to remain well above 7 percent.

“Europe appears to be at the beginning of a modest recovery following its sovereign debt crisis, and the UK is coming off a low base but is expected to grow faster than Germany over the next two years,” Mr Lee said.

“As a result, opportunities will arise for Australian companies directly and indirectly leveraged to these key trading partners.

“A collateral benefit of stronger trading partners is a likely depreciation in the Australian dollar improving the global competitiveness of Australian businesses but likely impacting our importing companies.”

Mr Lee said Morgans analysts were expecting 2014 to present businesses with a plethora of productivity and growth opportunities.

“However, typically the pursuit of these growth opportunities, particularly if being driven by international demand, can be expensive and capital hungry,” he said.

“Access to debt markets remains a challenge for most emerging companies and ‘merger and acquisition’ opportunities are becoming more complex and expensive,” Mr Lee warned.

“Equity markets typically lead economic improvement by 12 to 18 months and as such will, in our view, become a more readily available and cost effective source of funding for emerging companies in 2014.”

Morgans, a long-term Industry Expert member of Queensland Leaders, recently struck a strategic alliance with CIMB Securities International Australia for research and cooperation on corporate advisory and capital markets in Australia. The alliance initially gives Morgans customers access to highly ranked research of CIMB Australia provides CIMB Australia with Morgans’ distribution platform of more than 300,000 customers for equity capital market transactions.

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