

Economic Stimulus Package 2009

Inside this issue:

Tax Bonus	1
Economic issues	2
Conclusion	4

Special points of interest:

- Who will receive bonus—working Australians
- Currency—around .64c
- Interest Rates—3.25%
- Australian Share Market - dropped 50% since 11/07
- Household Expenditure - declined
- Liquidity—dried up after 10/08
- Economic Outlook - more pessimistic than in 10/08



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**HELPING
ACHIEVERS IN
THE COUNTRY.**

Monday 9 February 2009 \$42 Billion Nation Building and Jobs Plan details announced.

On 3 February 2009, the Prime Minister, Kevin Rudd, and the Treasurer, Wayne Swan, jointly announced the Government's \$42 billion Nation Building and Jobs Plan to support jobs and to invest in future long term economic growth. These measures were modified by negotiations with the senate. Key tax measures funded by the Nation Building and Jobs Plan include:

- A tax bonus for working Australians of up to \$900 paid to every eligible Australian worker earning \$100,000 or less (estimated at up to 8.7 million individuals), and

- A temporary business investment tax break for small and general businesses buying eligible assets.

Details of the tax bonus provided by the Treasurer are as follows:

A lump-sum payment of up to \$900 will be made to eligible taxpayers from April 2009. The bonus will be available to Australian resident taxpayers who paid tax in the 2007-08 financial year after taking into account available tax offsets

and credits. Taxpayers will not need to apply for the payment. The ATO will automatically make the payment after determining eligibility. The bonus is subject to an income threshold test as follows:

- \$900 bonus will be paid to eligible taxpayers with a taxable income of up to and including \$80,000;

- \$600 bonus will be paid to eligible taxpayers with taxable incomes exceeding \$80,000 and up to \$90,000;

- \$250 bonus will be paid to eligible taxpayers with incomes exceeding \$90,000 up to and including \$100,000.

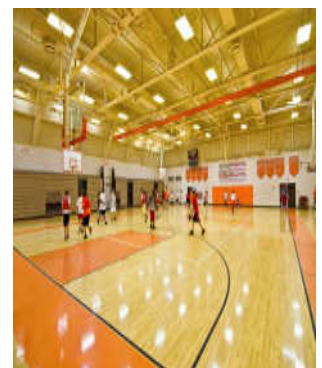
Small businesses can claim an additional 30% tax deduction for eligible assets costing \$1,000 or more that they acquire from 13 December 2008 to 30 June 2009, and install by 30 June 2010

For eligible assets costing \$1,000 or more that they acquire from 1 July 2009 to 31 December 2009, they can claim an additional 10% deduction where they are installed by 31 December 2010. To benefit from this tax break a small business must have a turnover of \$2 million a year or less.

Other businesses can receive the same deductions for eligible assets greater than \$10,000. Note that it only applies to depreciable equipment therefore finance lease equipment does not qualify and it also does not apply to second hand equipment.

Other measures included in the stimulus package are:

Repairing roads \$150 Million conditional upon States and Territories signing up for the \$22.03 Billion Nation Building Programme commencing 2010 to 2013. A further \$500 million to local government commencing immediately over two years to critical community infrastructure programs, an indicators is libraries, town halls, community centre's and sports centres.



Thought for the Day

"Those who have knowledge don't predict. Those who predict don't have knowledge". Lao Tzu

Economic Stimulus Package

Continued

Boom gates for rail crossings - \$50 million in 2008/09 and \$100 million in 2009/10 for 200 new boom gates.

Additional expenditure on black spot programmes - \$30 million in 2008/09 and \$60 million in 2009/10.

Additional defence housing construction program - \$252 million commencing April 2008 and completed March 2011 on construction of 802 houses.

Public and Community Housing - \$6 billion over three and a half years from 2008-09 to 2011-12 for the construction of new social housing and a further \$400 million over two years for repairs and maintenance to existing public housing dwellings.

Insulating Australian Households - \$2.7 billion for ceiling insulation a maximum of \$1600 for Households, \$1000 for tenants in rental accommodation, climate friendly hot water systems means tested up to \$1600.

Farmers Hardship Bonus - \$950 to farmers receiving the Exceptional Circumstances income support and farmers in drought conditions. Assistance With Education back to School Bonus - The Government will provide \$2.6 billion to help families with the costs of education in the 2009 academic year.



The Back to School Bonus is expected to assist 2.8 million children aged 4 to 18 in just over 1.5 million families across Australia receiving Family Tax Benefit Part A (FTB-A) for an amount of \$950 per child.

Single Income Family Bonus - The Bonus will be a one-off payment of \$900 per family to every family entitled to Family Tax Benefit Part B (FTB-B), irrespective of the number of children. The one-off payment will be made in the fortnight commencing 11 March 2009 for families who receive their family assistance as fortnightly instalments.

Training and learning Bonus - funding of \$511.2 million The Training and Learning Bonus consists of two categories:

Category 1

The one-off \$950 bonus (for 2009 only) for recipients at 3 February 2009 of: Youth Allowance (student and apprentices); Austudy; ABSTUDY and other student and related payments (Sickness Allowance and Special Benefit (under age pension age)). If a student attracts the Government's Back to School Bonus they are not eligible for the one-off \$950 Learning and Training Bonus.

Category 2 (Applies from 1 January 2009 to 30 June 2010)

A temporary supplement to the Education Entry Payment (EdEP) of \$950. This is in addition to the existing EdEP payment of \$208. EdEP is currently paid to a range of social security recipients who are commencing study, including Newstart Allowance and Parenting Payment Partnered recipients. A temporary extension of EdEP to Youth Allowance (other) recipients and relaxation of eligibility to a one month qualifying period for all eligible recipients.

Building the Education Revolution - comprises three components - primary school refurbishments for primary schools, K12s, Special

schools, libraries and multipurpose halls \$12.4 billion; Secondary schools science and language centres, \$1 Billion for 500 science laboratories, or language centres to be completed by June 2010; Refurbish and renew infrastructure in all schools \$1.3 billion.

Household Stimulus Package - \$12.7 billion for the \$900 packages detailed above.



Economic Issues

Since the initial assessment by the Reserve bank of Australia (RBA) in October 2008 that Australia might only be moderately affected by the Global Financial Crisis (GFC) the international situation has changed markedly.

In particular the international Monetary Fund (IMF) outlook is more pessimistic than it was in the October 2008 report on the 2009 outlook.

Its global financial stability report released on the 28 January 2009 points out the deleveraging (debt reduction) of financial institutions, write down of asset values, sales of assets and retirement of maturing credit. This has increased downward pressures on asset prices. Restoration of functionality of the financial system and confidence are seen as two key elements for recovery in conjunction with government three pronged policy actions of liquidity provision, capital injections and disposal of problem assets aimed at balance sheet cleansing.

The IMF says that liquidity is still tight in the international markets particularly securitised markets. Lending to emerging markets has dropped sharply. Domestic private sector credit growth has dropped across a large number of countries, which will inevitably lead to contraction in retail spending and other household dependant expenditure.

The IMF says that individual country policy needs to encompass three issues: Immediate short run policies consistent with long run vision for a viable financial system;

Rules governing the process towards a more stable financial system need to be clear and consistent;

International cooperation on a common policy framework for financial policies should receive a high priority.

The RBAs Statement of Monetary Policy of 9th February says that the severe global economic downturn and decline in commodity prices clearly creates a difficult environment for the Australian economy.

Commodities-Coal and iron ore prices have dropped 20% to 35% in the last three months. Given that BHP and Rio Tinto extracted around 80% price increases in the 2008 contract price negotiations for iron ore with China, further downward pressure on these commodities can be expected. Base metal prices have fallen 25% in the last three months lead by aluminium, copper and lead. Oil prices have declined from \$140 USD to 40 \$USD.

Currency-But over the same period the Australian dollar has fallen from about .98c USD to around .64c essentially increasing the price of our imports by a third but also cushioning the fall in commodity prices by the same proportion.

Interest Rates-During the same period the RBA has reduced the cash interest rate by 4% to 3.25%. The US cash rate

has dropped to .25% a drop of 5% since the loosening cycle started.

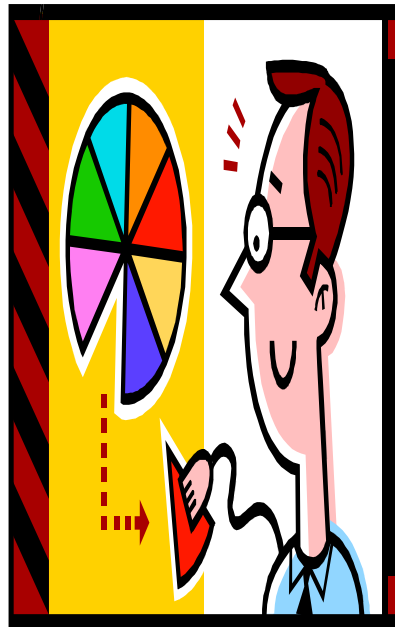
Australian share market-has now dropped 50% since late November 2007, making it the largest fall since the 1971 recession. This fall is approximately the same in the entire world's major share markets. In relation to the share market, Shane Oliver from AMP said in a recent research article that 32% of upside recovery in the share market occurs in the first six months of the upturn.

Liquidity-The RBA reports have stated that some businesses have had trouble accessing finance and liquidity certainly dried up after October 2008. However the government moves to increase liquidity seems to have been effective for all but the largest companies or those businesses that had excessive borrowings.

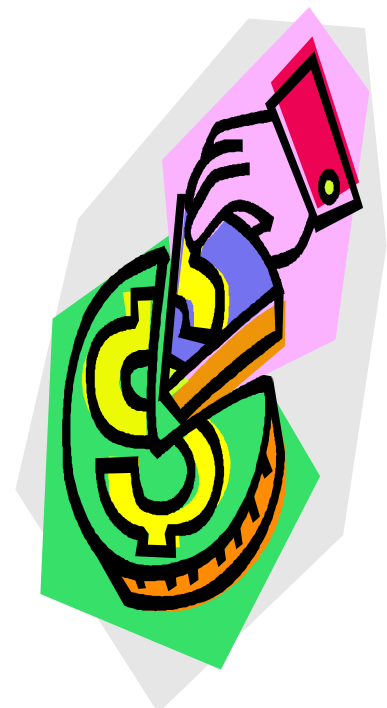
During the last week Japan, our largest export partner ahead of China, reported a quarterly decline of 3.7%, giving a negative annual GDP of 12.7%.

Rabo Bank January Global Focus Report has analysed the impact of the GFC on the agricultural sector:

1. The fall of rural commodity prices of 30% have been cushioned by the decline in by the fall in the Australian dollar so that about a 7% fall has occurred in farm gate prices;
2. There has been a substantial fall in agriculture input prices particularly fertiliser down 70% from mid 2008;
3. The fall in interest rates has been a major benefit to many agricultural enterprises



Household expenditure has declined but made a recovery through the Christmas period. However net household wealth has declined an estimated 10% over the three month period from the last RBA Statement. House prices have only had small declines in value so far.



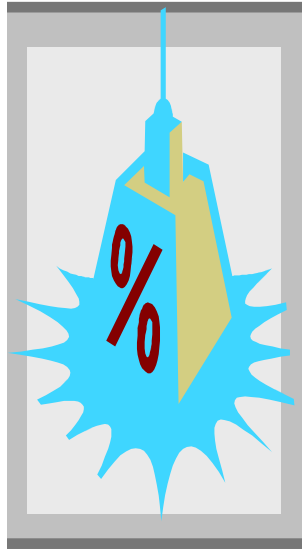
Economic Stimulus Package Continued

Another promising indicator is that the Southern Oscillation Index (SOI) is indicating a 60% chance of an average season and one of the six models is predicting a la Nina, although the from February to June is the period of instability where the model predictions are less reliable.

The utility of this information is to try and assess what the impact is likely to be on the North West New South Wales economy, and how that will impact on your business and personal circumstances.

Our local economy, from the last independent economic analysis done about a decade ago, is 50% directly or indirectly dependant on the rural sector, about 25% dependant on government (Hospitals, Schools, Departments), local government, or government welfare agencies and payments and 25% dependant on the balance of the private sector. The government sector is likely to remain stable into the foreseeable future. The biggest variable affecting agriculture is whether the season is wet or dry, and at the moment it is likely to be an average season. The remaining 25% of the private sector will be buoyed by the local economy but dragged down by the general economy. On balance you could be hopeful that for the foreseeable year ahead we may have an average period.

However having said that, in the face of the steep decline in the economies of our international trading partners, and the fact that many mining operations are being mothballed as they fall below breakeven production, there must be a negative impact on the general Australian economy which is likely to impact in some way on the local regional economy. The reality is that no one knows how deep this downturn will be.



Conclusion

From the analysis that we have done, the first thing clients should ensure that their debt is within lending guidelines. If you think your credit lines are inadequate, now is the time to negotiate with your financial institution to ensure lines of credit are in place to meet unanticipated requirements.

Other issues to consider are:

1. Pricing strategy – particularly discounts for slow moving stock but monitor to ensure sales volume increases, rather than sale of items to existing customers at a lower price;
2. Identify your best customers and products and services and focus on them;
3. Strengthen your balance sheet – reduce debt and dispose of non core assets;
4. Ensure your financial reporting is adequate and timely;
5. Focus on your core business and operational processes;
6. Do not cut discretionary spending without good reason, it may impair recovery in the upturn;
7. Work with your key suppliers to lower cost of goods and services provided to you;
8. Keep your team in the loop.

If you have any concerns about you business operation that we have not already discussed with you please contact us.