

The global financial crisis and regional Australia

Regional Australia

- 1.1 Regional Australia is the 'economic backbone of the nation's prosperity.'¹ In 2003, Australia's non-capital city regions contributed 34.1 per cent of Australia's Gross Regional Product worth some \$205 billion.² Regional exports such as minerals, forestry products, grain, wool, beef, wine and tourism drive the nation's economy and were worth about \$65 billion in 2006.³ These industries also drive the local economies of the regions, which often depend on major export industries to generate local economic activity.
- 1.2 The effects of the global financial crisis (GFC) have been felt around Australia, from the CBD of Sydney to the CBD of Burnie. This is not surprising given the pervasive nature of the crisis and the considerable economic activity that occurs in regional Australia.
- 1.3 It is the Committee's role to identify and highlight issues facing regional Australia. The GFC is certainly one of those issues, and it is the Committee's expectation that this report will assist the Government to better understand how economic downturns affect regional Australia so

1 Department of Foreign Affairs and Trade, about Australia fact sheet: Regional Australia, http://www.dfat.gov.au/facts/regional_australia.html, p. 3, accessed 8 September 2009.

2 2003 State of the Regions, [http://dpl/Ejournals/State of theRegionsReport/INDEX.htm](http://dpl/Ejournals/State%20of%20theRegionsReport/INDEX.htm), accessed 17 September 2009.

3 Department of Foreign Affairs and Trade, about Australia fact sheet: Regional Australia, http://www.dfat.gov.au/facts/regional_australia.html, p. 3, accessed 8 September 2009.

that it will be in a better position to formulate regional development policy aimed at strengthening the economic resilience of our regions.

The global financial crisis

- 1.4 In July of 2007, rising interest rates in the United States, combined with a constricting US economy, led to a rise in home mortgage defaults. Rising mortgage defaults revealed that the lending practices of some US lenders were questionable, as money had been lent to people who should have been ineligible to borrow. Unfortunately, many risky mortgages in the United States had been bundled into mortgage bonds, rated by ratings agencies and sold to investors. In some cases, the risk associated with these bonds was passed on utilising credit default swaps (CDS).⁴
- 1.5 When investors began to lose confidence in the bonds, a liquidity crisis ensued as the bonds were sold off. A declining derivatives market also forced major investment banks such as Bear Stearns and Lehman Brothers to write-down the value of their assets, leading to a greater lack of liquidity in the market and the collapse of some investment banks.⁵
- 1.6 By the time Lehman Brothers collapsed in September 2008, an American crisis had become a global financial crisis. The internationalised capital market was in decline and the lack of liquidity in the banking system resulted in a lack of available or affordable credit in many countries including Australia.
- 1.7 Governments around the world responded to the crisis by providing billions in funding for banks, credit and consumer markets, and on some occasions, guaranteeing bank deposits. In Australia, the Government guaranteed bank deposits up to one million dollars, wholesale term funding of Australian incorporated banks and authorised deposit-taking institutions and purchased \$4 billion in Residential Mortgage Backed Securities.⁶

4 A CDS is a form of insurance that allows for the transfer of credit risk without the transfer of an underlying asset, Dr Michael Porter, *The economic collapse we did not have to have*, Committee on Economic Development Australia, 25 August 2009, http://www.ceda.com.au/public/research/financial_crisis/porter.html, accessed 25 August 2009.

5 Manningham City Council, *Submission No. 32*, p. 3.

6 Media Release, Prime Minister of Australia, *Global Financial Crisis*, 12 October 2008.

- 1.8 No amount of government intervention could fully negate the effects of the crisis that rippled through the Australian economy throughout late 2008 and into 2009. The Australian Stock Exchange (ASX) fell and businesses exposed to the global economy or reliant on credit began to suffer. Job losses followed and consumer confidence began to wane, further impacting businesses and jobs. Australia, however, fared better than many – and continues to do so.⁷
- 1.9 The effects in regional Australia have been similar to those experienced in the metropolitan areas – declines in business activity, job losses and resulting social problems. Some regions, heavily reliant on industries such as mining, tourism and manufacturing, have keenly felt the effects of the crisis.⁸ While some agricultural regions view the crisis as another challenge to be faced after years of drought, others have experienced growing economies due to an increase in domestic tourism at the expense of declining international tourism numbers.⁹ Similarly, in regions where the drought has broken, the financial crisis is of less concern.¹⁰
- 1.10 The picture that emerges of this crisis in the regions is a mixed one and serves to highlight the challenges that regional policy makers face when considering regional development issues generally, and responses to this crisis specifically. Challenges, however, should not be deterrents, and while a considerable amount of effort (and money) has been committed in response to the GFC by government, the Committee, in undertaking this inquiry, has sought to ensure that regional concerns are heard as Government formulates responses to the crisis and aids in the development of regional Australia.

Aim and scope of the report

- 1.11 There were several challenges the Committee faced in undertaking an inquiry of this nature. The GFC continues to unfold and so the Committee has been aware that information it gathered has been regularly superseded by events. Likewise, official data is reflective of a specific time

7 The impact of the global financial crisis to date has been less severe in Australia than other OECD countries. See OECD Economic Outlook 85 database.

8 This was most evident in areas the Committee visited such as Broken Hill (mining), the Gold Coast (tourism) and Geelong (manufacturing).

9 Regarding agriculture see, Department of Agriculture, Fisheries and Forestry, *Submission No. 128*, p. 3. Regarding tourism see, Mr Robert Wallace, *Transcript 21 April 2009*, p. 9.

10 Mr Anthony Brun, *Transcript 29 April 2009*, p. 2.

period and is not always timely when events are moving quickly. In this case, business surveys have assisted in providing more timely information.

- 1.12 Much of the evidence gathered by the Committee is anecdotal and does not provide a complete record of the impact of the GFC on regional Australia, however, the Committee expects that this inquiry will add to the body of information available regarding the impacts of the GFC in regional Australia and will assist future research into the crisis once it has abated.
- 1.13 The speed of the crisis and the need for governments to respond quickly has resulted in a situation where the Committee is aware of government action but not able to comment extensively on the impact of this action because enough time has not lapsed. The Committee does, however, examine government programs and stimulus in regional Australia where appropriate.
- 1.14 The report is broken into two sections; the first addresses the impact of the crisis on regional Australia to date and the government response. The second section examines current and future regional development policy options targeted at assisting Australia's regions to grow and withstand future economic challenges.

Conduct of the inquiry

- 1.15 The inquiry was advertised in *The Australian* on 18 February 2009 and in the 13 February 2009 edition of the Australian Local Government Association newsletter. A press release was also issued to regional media outlets on 12 February 2009.
- 1.16 In addition, the Committee invited submissions from federal Ministers, state and territory governments, 560 local governments, 49 state and territory Regional Development Boards, 54 Area Consultative Committees, as well as a wide range of businesses, and business and labour organisations, research institutes and social service providers. In total, the Committee issued 628 submission invitation letters.
- 1.17 To date, the Committee has received 170 submissions from 164 parties. These submissions are listed in Appendix A. The Committee also received 31 exhibits which are listed in Appendix B.

- 1.18 The Committee held public hearings in: Burnie, Launceston, Geelong, Ararat, Geraldton, Busselton, Mandurah, Sydney, Broken Hill, Beenleigh, Canberra, Townsville and Darwin. In total, 164 witnesses appeared before the Committee at these public hearings. Details of the hearings and witnesses who appeared can be found in Appendix C and a brief summary of the Canadian Mortgage Bond Scheme is found in Appendix D.
- 1.19 Transcripts of the Committee's public hearings and copies of all written submissions are available from the Committee Office of the House of Representatives, the National Library of Australia or on the inquiry website:
- <http://www.aph.gov.au/house/committee/itrdlg/index.htm>

