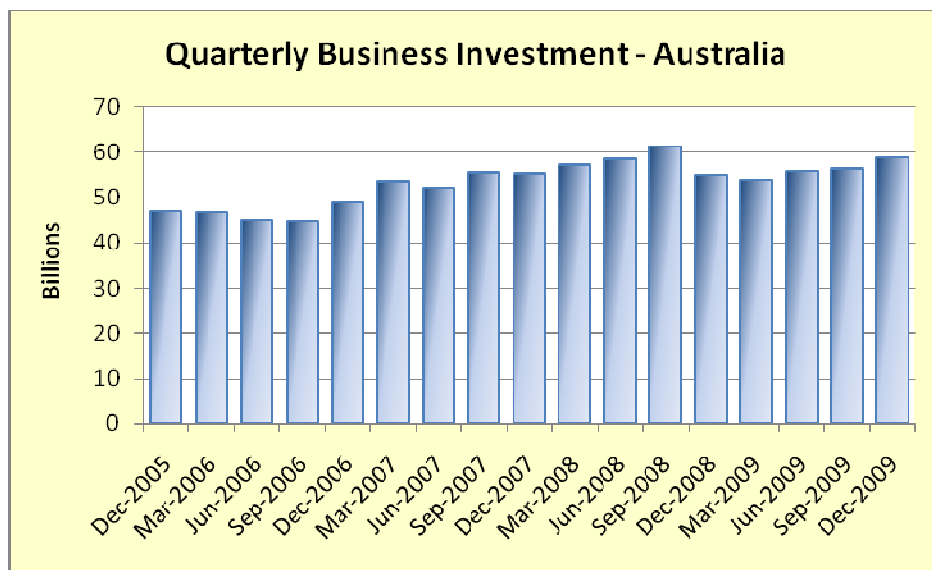


**Business Investment Post GFC**

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The recent global financial crisis (GFC) sent shock waves through the world's financial and banking sectors, ultimately flowing through and having a negative impact upon all businesses and economies around the world. Availability of credit for businesses and corporations was all but non-existent in the months following November 2007, right up until today. Only recently have we seen the major lenders relax their tight lending policies. Despite the recent upturn, businesses are still finding it quite difficult to secure necessary funding, which in the past, would have been handed to them on a platter.

Total private business investment, which makes up around 18%-20% of Australia's GDP, has suffered during the recent global downturn and dropped nearly 12% below the peak reached in September quarter 2008. The graph below shows private sector investment since the end of 2005.



Source Data: Reserve Bank of Australia – (G11 GROSS DOMESTIC PRODUCT - EXPENDITURE COMPONENTS).  
Includes: Building & Structures Investment, Equipment, Other & Total Change in Inventories.

This drop was due in part to the large fiscal stimulus package that was rolled out by the federal government, which created a crowding out effect, replacing business investment with government spending. However, as the stimulus is withdrawn and works its way through the economy, in conjunction with an improvement of global economic conditions, it's the businesses that have a focus on growth and those that see opportunities to capitalise upon the recent turmoil that will ultimately benefit during the next phase of economic expansion.

As you can see, from June last year, business investment has risen from its lows and will continue to replace the reduction in government spending as global markets improve. Competent business leaders have recognised the need to capitalise on this business cycle's trough and have re-assessed balance sheets to position their businesses for the up-turn.

The share market is a leading indicator, usually tracking 6 to 12 months ahead of the underlying economy. Since the lows in March 2009 we have seen the Australian index surge by more than 50%. This is a proxy for the expected performance of the underlying economy, and businesses should draw confidence from this rebound.

Firms that want to position themselves as leaders within their industry need to start developing and implementing growth plans now, in order to gain market share and create additional value for owners.

Growth in new business investment is expected to pick up from recent declines, as indicated in the Federal Government 2009/10 Budget Papers, excerpt below.

“Investment in new machinery and equipment is expected to recover lost ground in 2010-11, growing by 7 per cent, supported by a stronger outlook for corporate profits and global and domestic demand”.

[http://www.budget.gov.au/2009-10/content/myefo/html/part\\_2.htm](http://www.budget.gov.au/2009-10/content/myefo/html/part_2.htm)

This is a clear message that businesses cannot rest on their laurels in the hope that future cash flows will simply be a by-product of an upturn in the economy. Companies need to continue with their investment plans to not only compete in the new growth phase, but to survive as a viable and profitable business into the future.

Businesses will need to be smarter, more efficient and more aware of opportunities in order to prosper from the next growth phase of the business cycle. The effective allocation of new and existing resources and the identification of value added investments are critical elements to business success. The question that business owners and managers need to ask is “are we doing all we can to maximise value”?

Jeffrey Campbell  
Senior Financial Analyst  
BCA Marshal  
[jcampbell@bcamarshal.com.au](mailto:jcampbell@bcamarshal.com.au)



1300 480 395  
[www.bcamarshal.com.au](http://www.bcamarshal.com.au)

Managerial finance & corporate advisory professionals

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