

Transcript - Sky News business - 1 May 2014

Carson Scott: This is pretty much a horror read. It doesn't really get much worse than this, does it?

Innes Willox: It's a pretty bad number, you've always got to be cautious a little bit with April because of factors like Easter and school holidays. But still, it's a continuation of a trend that we've seen over the last couple of months. We've seen manufacturing go back into contractionary territory. We had three months after the election of growth, but it seems as though those hopes of growth have been extinguished at least for now. These are fairly ordinary numbers. The one number of particular concern is forward orders, which fell by ten points back into the low 40s after having a gradual increase in March. That is always the lead indicator, and that's a pretty negative sign, and that's a sign that key parts of the economy that manufacturing and bits of the economy that feed off it are back into contractionary territory well and truly. And as you said this is about the worst number for almost a year.

CS: the expansion in the food and beverage sector? You've called it a very large sub-sector. How large are we talking?

IW: Well that's a very important part of our economy because it's all the food processing and the agri-business parts of our economy, and that's growing quite strongly. The growth in that sector was less than the growth in the month before. But that has been a sector of the economy that has continued to grow consistently. And that's very positive and very welcome. That perhaps tells us where we do have some competitive strengths, and we're able to play to those strengths. So yes, do take some sucker from that. It's a very positive and welcome number. But other parts of the sector are doing it particularly tough. As you mentioned, exports are down to 30 and that's a very bad number. And that's telling us that rise, or re-rise, of the dollar over the last three months is starting to have an impact again unfortunately.

CS: As you say in this report, the numbers bolster the risk of a contractionary budget further slowing activity by either raising taxes or excessively cutting back on public sector. An editorial in today's Fairfax warning against quick fixes in the budget, i.e. supposed the temporary income tax hikes to go the other way to try and balance the budget. How important is it that there's a long-term vision espoused in May?

IW: I think that it's essential that it's a budget not just for one year, it's got to set us up for a decade. And we need to look at it like that, it's a budget for the ages in many ways. But we can't move into surplus too quickly because that would be ultra-contractionary for the economy. I think the

government's understood that message. And you hear from ministers and the Prime Minister about moving back into surplus over four or five years

CS: You say they've understood the message, but they've not renounced the idea of temporary income tax hikes. That is short-term by definition.

IW: We would want them to and we've been talking all week about how this would be a very bad policy, and it would in itself be very contractionary for the economy because it would be taking money out of the pockets of people who are employed and who are spending money at the moment and putting money through the economy. We already have fragile confidence and these figures today are another piece of evidence around that, but to put a temporary levy around people who are working would be unnecessary. It would be a short-term fix but it would probably, we believe very much, cause long-term pain and some damage for the economy and we hope that this is just a pre-budget kite that's been flown and it really doesn't go anywhere. There are lots of other things the government can do over a long-term to get the economy back into surplus. You have to grow the economy and that's why our priorities are around tax relief for business, whether that be company tax cuts which are quite unlikely in this budget to be honest, but things like accelerated depreciation, changes to that would be very welcome, more spending on infrastructure would be important, and business understands the need to get back into surplus but to do it gradually and that's the way we need to manoeuvre the economy. You'll hear today undoubtedly from the Commission of Audit report about government waste and in terms of government spending and there are very key areas in that field that they could tackle before they start putting taxes on people who are working. It would make us one of the most taxed workforces in the world.