

# THE AUSTRALIAN

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<b>MARKET</b>	Z	+0.97%	33.34	SUN	+0.35%	14.36	MQG	+0.92%	60.3	STO	+1.17%	12.93
S&P/ASX 200	AUD/USD	TOP GAINER RFG	TOP LOSER WSA									
+0.86%	+0.10%	+9.05%	-5.19%									
5459.0000	\$0.88	\$5.30	\$4.20									

## From carbon tax to spending spree

ROBERT GOTTLIEBSEN BUSINESS SPECTATOR OCTOBER 28, 2014 8:01AM

**TAKE a bow Tony Abbott. It looks like that the abolition of the carbon tax has finally reversed Australians' obsession with higher saving and cutting back spending.**

Although the carbon money is not yet in consumers' pockets, the energy companies have written to their customers so they know the money is coming.

Salaries are not rising (apart from in the public service) but the carbon tax reduction plus lower petrol prices make it feel as though everyone has had a pay rise. And it's coming just before Christmas — the right time.

Let me explain why I believe consumers are about to lift their spending rate. It's been some years since I heard from Charlie Nelson, managing director of Foreseechange. Nelson devotes his business to predicting fundamental changes in consumer behaviour. For the last three or four years Australians have been saving and curbing their spending — so there has been no fundamental retail spending change to which Nelson could alert us.

Now suddenly there is real change and Nelson has put out an alert to retailers — prepare for a good Christmas. And investors in retail shares need to be aware of the sentiment change.

The Nelson “willingness to spend and determination to save” graphs are based on questions that Charlie Nelson has perfected over many years and covers 1200 adults.

The first thing we notice in the October figures is a sharp pick up in willingness to spend and a fall in willingness to make extra loan repayments. But willingness to save has not declined.

Nelson says that willingness to spend has jumped to its highest level since late 2010. And October 2014 is the greatest increase since 2009 following the fiscal stimulus when the government showered \$20 billion on consumers to avert a recession during the GFC.

For many years the fall in interest rates has not caused Australians to reduce their willingness to repay loans ahead of schedule — until now. Nelson says that it can take three years for lower rates to change consumer habits. It usually requires a trigger and the abolition of the carbon tax provided that trigger.

A high carbon tax was one of the most ill conceived attacks on Australians ever dreamed up by Canberra politicians. There is clearly a large portion of the population who believe in global warming and advocate carbon reduction via a carbon tax. A carbon tax is designed to create price

pressure to reduce carbon and it works.

Our tax was foolish not only because it was high but because we had spent large sums on the power networks. The consequent network charges caused power prices to skyrocket at the same time as the carbon tax boost. Accordingly, we effectively had two carbon taxes at once. No other country took such a step so it made life tough for a vast number of Australian businesses.

Australians knew the carbon tax would hit employment so kept saving despite interest rate reductions.

The carbonites created doubt in the community as to whether Abbott would succeed in abolishing the carbon tax. Now it done it's a big winner for the nation.

But while the carbon tax abolition will help the next six to eight months we still have the full impact of the decline in mining investment and auto manufacturing — the effects of which will kick in during 2015 and 2016.

Business Spectator

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