BOOST TO JOBS NOT ENOUGH TO OUTPACE POPULATION GROWTH

JOBS

THE outlook for jobseekers is set to go from bad to worse, economists say.

Official figures due tomorrow are expected to reveal the jobless rate has improved, but the relief is likely to be short-lived.

Australia's unemployment rate is broadly expected to have recovered slightly in February following a bleak result in January, when it soared to a 12-year high of 6.4 per cent.

That recovery is unlikely to last long, however, with the rate tipped to drift higher throughout the year.

The economy is expected to have added 15,000 jobs in February, taking the unemployment rate back down to 6.3 per cent, according to a survey of 13 economists.

But Saul Eslake, chief economist at Bank of America Merrill Lynch, said he expected unemployment to peak as high as 6.75 per cent in the September quarter — a 13-year high.

Jobs are being created, but not enough to keep up with population growth.

"Given Australia's rate of population growth — which is still being fuelled by quite a high rate of immigration — you need to create around 20,000 new jobs per month to stop the unemployment rate from rising," he said.

"In 2014, the pace of jobs growth picked up, but the participation rate stopped falling, which means you need to create more jobs in order to stop the unemployment rate from rising."

Quotas back on agenda

TREVOR CHAPPELL
BOARDROOM

IF COMPANIES do not start appointing more women to their boards, the Federal Government may be pressured in future to introduce quotas, a prominent business group says.

Governance Institute of Australia president Trisha Mok says there is growing evidence that "a commitment to gender diversity is not in Australia's corporate DNA".

Speaking at an International Women's Day lunch yesterday, Ms Mok said Australia's top 200 listed companies continued to underperform when it came to appointing more female directors voluntarily.

Many European countries — including Norway, Belgium, Iceland, Italy, The Netherlands, Spain and France — were imposing quotas to prescribe the proportion of women on boards, she said.

The British Government also has raised the prospect of quotas.

"While quotas might not be on the current Government's agenda, that does not mean it won't be a priority for future governments," Ms Mok said at the event in Sydney. "Investors are already pushing boards on targets and will push for quotas if there is inaction."

Ms Mok pointed to a report published last July by funds manager Blackrock that showed just 21 per cent of non-executive director roles on ASX 200 boards were filled by women.

The report also found the standard of gender diversity disclosures by companies was "perfunctory".

This clearly showed that gender diversity was not in Australia's corporate DNA, Ms Mok said.

"The reality is that failure of voluntary action to deliver gender balance on boards within a practicable time frame could be a wake-up call for stronger measures," she said.

The Governance Institute is an independent professional association that provides education and support for chartered secretaries, governance advisers and risk managers.

AAP

> A commitment to gender diversity is not in Australia's corporate DNA.
>
> Governance Institute of Australia chief TRISHA MOK

Poison scare hits NZ dollar

LEGAL

THE New Zealand dollar has taken a hit after police there said they had been investigating threats to contaminate infant formula and related dairy products with pest-killing poison 1080.

It fell as low as US72.75c after the police announcement yesterday, from US73.31c late on Monday.

New Zealand's Ministry for Primary Industries announced it had tested more than 40,000 raw milk and product samples since November, when Federated Farmers first received anonymous threats in the mail that included infant formula laced with the poison.

"It caused a scare in the kiwi as the story hit the headlines," said Westpac analyst Imre Speizer. Dairy products are New Zealand's biggest export. The scare turned out to be groundless.

Food drives up inflation

WORLD ECONOMY

CHINA'S inflation rate rebounded above 1 per cent last month, driven by a faster rise in food costs.

Figures released yesterday showed consumer prices increased 1.4 per cent in February, compared with a year ago, up from 0.8 per cent in January.

Food prices rose 2.4 per cent.

Arguments for a boom but also a good case for caution

THE SHORT CUT
with ROGER MONTGOMERY

WILL the market boom or bust in 2015? The answer to that question will be known in a few months.

We believe that the ultimate drivers of aggregate stockmarket performance — earnings and earnings multiples — are themselves being driven by factors that aren't sustainable and may ultimately reverse.

Many bears also argue that the world economy has major problems. China's rate of growth is declining, Europe and Japan are stable only because of asset-purchasing programs, and Australia's deteriorating conditions are sufficiently dire to warrant record low interest rates.

We are also concerned that low interest rates are doing little for the real economy, instead only driving asset prices.

Double-digit real estate price growth, for example, when the economy is weak and job insecurity high, produces very little flow-on benefit, particularly to those who do not own a property.

The domestic economy's yawning chasm, left by the end of the resources boom, is not being filled by other sectors.

Private capital expenditure has also fallen off a cliff in both mining and manufacturing and the extent of the decline could amount to a hit to gross domestic product of almost 1.5 per cent.

Private capital expenditure is of course the primary driver of employment in the economy. The recent and continuing slump in capex suggests unemployment is some way from peaking.

At some point this year, investors could turn their attention toward these concerns.

We are also cognisant of the drivers of aggregate stockmarket returns.

Earnings are driven by GDP growth and margins. GDP growth is driven by labour and productivity, and the labour force is being hollowed out by retiring Baby Boomers (not to mention the slump in both private Australian capex and Chinese growth).

This is a negative influence on GDP growth, and in turn, a negative influence on medium-term stockmarket returns.

The other driver of earnings is margins, and these are now at historic highs. Profit margins tend to mean-revert, which simply suggests the only way for them in the future is down.

In the medium term pressure on margins could lower the rate of earnings growth.

Once we remember that the forces on aggregate stockmarket returns can be reduced to earnings and earnings multiples, we can argue that pressure will come from earnings via slower GDP growth and mean-reverting margins.

Turning to the other influence on aggregate stockmarket returns — earnings multiples, or the price investors are willing to pay — the biggest influence is interest rates.

Despite the Reserve Bank's decision to leave rates on hold at its March meeting, interest rates in Australia remain low.

In the wild, when too many animals migrate at the same time, their sheer mass denudes the fields of the food they depend on, leaving them starving en masse.

The same can be seen in the current generational avalanche out of cash and into stocks. Yields are being compressed, and investors forced into a narrower and narrower band of higher quality securities offering stable dividends.

Eventually the yields offered by these stocks fall towards those offered by bonds and the current argument for migrating into equities tends to disappear.

Ultimately, the answer to successful investing over the long term lies in the successful selection of a portfolio of businesses whose earnings rise as a result of the compounding of retained profits at an attractive rate.

These however must be bought at a rational price and the risks outlined here suggest patience rather than panic will be rewarded.

Roger Montgomery is chief investment officer at The Montgomery Fund