REJECT SHOP CARDS CALL

GIFTWARE

THE Reject Shop plans to position itself as Australia's leading retailer of greeting cards as part of a broader blueprint to bolster its ailing fortunes.

And the discount retailer is still urging shareholders to reject a $78 million takeover bid, despite slashing its dividend following a 40 per cent drop in first-half profit.

Net profit at the chain fell to $10.6 million in the six months to December, from $17.7 million a year earlier, the group announced yesterday. Sales fell 1.1 per cent to $432.7 million despite what the company said was a successful Christmas period.

It has slashed its interim dividend from 24c a year ago to 10c, fully franked.

Managing director Ross Sudano said the retailer aimed to reposition itself as a leader in Australia's greeting card and home storage markets.

Stockland feels heat

BEN WILMOT
PROPERTY

STOCKLAND has warned the property downturn and sluggish conditions in the retail sector are dragging on its performance.

The company yesterday tipped land prices would fall further this year but said it was still expecting to settle more than 6000 residential lot sales in the year to June — subject to no further deterioration in market conditions.

It issued the forecast while reporting a net profit for the six months to December of $300 million, which was down 56.2 per cent from the same period a year earlier.

Stockland shares closed down 2.4 per cent yesterday at $3.68.

Separately yesterday, shopping centre owner Scentre signalled it expected further growth in shareholder returns and funds from operations, even as full-year net profit fell 46 per cent.

Jayne Hrdlicka has called for Coles and Aldi to follow Woolworths in increasing milk prices to support dairy farmers. Picture: STUART McEVOY

A2 CHIEF BACKS MILK HIKE

DAMON KITNEY
DAIRY

A2 MILK chief Jayne Hrdlicka has called on Coles and Aldi to follow the lead of Woolworths in increasing milk prices for dairy farmers.

Ms Hrdlicka said yesterday she welcomed the move this week by Woolworths to add an extra 10c a litre to the price of house-brand milk that would be passed through to more than 450 Australian dairy farmers supplying the grocer.

"We are delighted to see increased support for farmers," Ms Hrdlicka said.

"It is an important part of sustaining a healthy dairy industry for the long term.

"We are happy with Woolworths stepping in to ensure the dairy community thrives. And we hope the rest of the industry follows.

"The dairy farmer industry needs to be supported."

Federal Agriculture Minister David Littleproud on Tuesday called on shoppers to boycott Coles and German chain Aldi after they said they would not follow Woolworths' lead and instead continue selling $1-a-litre milk.

Ms Hrdlicka's comments came as A2 Milk announced revenue in its Australian operations had grown at a double-digit pace in the six months to December, compared with the same period a year earlier.

The Auckland-based company, which is listed in Australia and New Zealand, has reported 11.7 per cent revenue growth and a record 10.8 per cent market share in the half, up from 10.0 per cent a year earlier.

It helped underpin a strong 55.1 per cent increase in the group's net profit, to $NZ152.7 million ($146 million).

Shares in the group surged on the results, climbing 10.5 per cent to $14.22.

Woolies pays a price

Profit miss punished

JOHN DAGGE
RETAIL

WOOLWORTHS will return $1.7 billion to shareholders following the sale of its petrol station network and has managed to wrest the lead from Coles in the grocery sales race.

But the group, Australia's biggest grocer, has suffered its biggest one-day market rout in almost 3½ years after its first-half profit fell short of expectations.

Woolworths yesterday reported a net profit of $979 million for the 27 weeks to December 30 — up 1 per cent from the same period a year earlier.

The haul was markedly less than analysts were expecting and shares in the retailer slumped by more than 5 per cent yesterday, wiping more than $2 billion from its value.

It was the biggest single-session fall in Woolworths shares since October 2015.

Sales at Woolworths, which also owns Big W and liquor chain Dan Murphy's, rose 2.5 per cent to $33.2 billion for the half, less than the 2.6 per cent growth rate key rival Coles notched up in the same period.

Sales in the key Australian food space rose 2.3 per cent to $19.9 billion — again less than the 3.6 per cent growth Coles notched up for the period.

But Woolworths overtook Coles in the final three months of the year, recording 2.7 per cent sales growth for the quarter against 1.3 per cent at Coles as the impact of the latter's Little Shop collectables promotion faded. Sales growth at Woolworths' drinks unit rose 1.8 per cent to $4.59 billion but earnings before interest and tax fell a sharp 6.4 per cent to $290 million.

Chief executive Brad Banducci pointed to higher fuel costs and mortgage repayments and flagged a subdued environment for the foreseeable future.

He also warned Dan Murphy's was the most exposed of the Woolworths businesses when customers trimmed discretionary spending.

"The housing price issues — how that manifests in mortgages — is something we will all watch with interest over the next half," Mr Banducci said.

Big W was a bright spot in Woolworths' report card, with its sales climbing 2.7 per cent ro $2.1 billion.

Shares in the group dropped 5.2 per cent, or $1.56, yesterday to $28.69.

john.dagge@news.com.au
WITH AAP

SNAPSHOT

WOOLWORTHS FIRST-HALF RESULTS

NET PROFIT
$979 million ▲**1%**

REVENUE
$30.6 billion ▲**2.3%**

EARNINGS PER SHARE
74.7 cents ▼**0.3%**

INTERIM DIVIDEND
45 cents ▲**2 cents**

SHARE PRICE (YESTERDAY)
$28.69 ▼**5.2%**

Economics of a higher spending government

SHORT CUT

ANDREW MACKEN

IN coming months, Australian citizens over the age of 18 will be required to elect members of the 46th Parliament of Australia.

Whether one consults Newspoll surveys or the betting markets, the data is pointing to a meaningful probability that Labor will displace the Coalition to form a new government.

What could this mean economically? Conventional wisdom says a new Labor government would increase government expenditures at a rate significantly above the Coalition.

Assuming this is correct, what is the likely economic impact of such increased government spending?

First, the negatives: increased government expenditures will most likely need to be funded via increased government borrowings.

This means higher interest expenses for the government and future debt repayments — potentially via higher future taxes or lower future government expenditures.

Furthermore, excessive government spending can create inflation if the economy does not have the capacity to absorb it.

While a little inflation is healthy in an economy, because it drives consumption and growth, too much inflation is never a good thing.

High inflation acts like a regressive tax on everyone.

Now, to the positives: government expenditure boosts economic growth.

And it just so happens that the Australian economy is deteriorating at present.

In recent weeks, the Reserve Bank revised down its forecast for domestic economic growth and inflation. CPI inflation is expected to be running at just 1.25 per cent annually over the coming months and the RBA's cash rate remains at its lows of just 1.5 per cent.

This points to an economy operating below its capacity and weakening. Therefore the probability of increased government spending being excessively inflationary is very low, at least in the short term.

Finally, it is worth observing that Australia's net-debt-to-GDP ratio, at around 20 per cent, is very low when compared with other developed nations around the world. Said another way, Australia's public balance sheet does have capacity to grow its borrowings to fund higher government expenditures.

So why didn't the Coalition take advantage of the government's balance sheet capacity to boost government spending and drive higher economic growth? Prudence.

And this should be lauded.

You see, a government can only use up its balance sheet capacity once, then the financial flexibility of the government reduces significantly.

And in order to regain new balance sheet capacity, government indebtedness needs to be reduced.

Typically, the process of reducing government indebtedness creates headwinds for economic growth.

The temptation for politicians is to spend today and leave the process of balance sheet repair for future politicians to deal with.

But, with the Australian economy operating below its capacity and continuing to deteriorate, there is a valid argument for our healthy public balance sheet to be used to stimulate domestic growth.

It's simply a question of striking the right balance.

ANDREW MACKEN IS CHIEF INVESTMENT OFFICER AT MONTGOMERY GLOBAL INVESTMENT MANAGEMENT