

Economic slowdown a time for businesses to take stock



Jirsch Sutherland National Managing Partner Bradd Morelli

Now, more than ever, Australian businesses need to be cautious about what's happening in the economy, says Jirsch Sutherland's National Managing Partner, [Bradd Morelli](#).

"This isn't the time to be complacent. I believe the bounce in optimism following the federal election will be short lived," Bradd says. "And while many might be celebrating the Reserve Bank of Australia cutting the official cash rate, it does signal that the Australian economy is 'shaky' and needs a shot in the arm. Growth in the economy has slowed, there are signs that unemployment is rising, and consumer spending is weaker. The latest NAB index of business conditions declared the retail sector is 'clearly in recession', with group chief economist Alan Oster agreeing that the sector was now 'GFC-level terrible'.

"Reducing the cash rate is really only papering over the cracks. If unemployment doesn't improve, it's possible there will be more rate cuts. As we heard from RBA governor Philip Lowe, 'it is not unreasonable to expect a lower cash rate'."

Bradd says it is the ideal time for business owners and directors to take a good look at their business and to consider its structure, debt and the possible risks that may result from local or international factors. "Businesses should be conscious of their budgets and of incurring any new debt," he says. "Paying down debt is a smart approach at this time."

It's a view echoed by Brendan McNabb, Partner with Newcastle accounting firm McGregor & McGregor. "Debt is cheap at present, but a business shouldn't be complacent about how much they take on," he says. "I think now is the time to make careful and considered decisions.

"May/June each year is a time for reflecting on the last 12 months and also planning how you can better perform next year. This should be done each year because if you are not improving, you are going backwards. Structure is always an important aspect of a business owner's strategy. I am of the view that planning starts 'at the start' and you should set things up so they can grow without disruption."

US Federal Reserve may also cut rates

It's not just Australia using rate cuts to stimulate the economy. Wall Street analysts are expecting the US Federal Reserve to cut its policy rate from September. Key to this move is the uncertainty surrounding the global economy, especially with the US-China trade war showing no signs of ending. The country's most recent non-farm payroll figures also disappointed with only 75,000 jobs added in May against expectations of 180,000.

These factors have led to analysts at Bank of America predicting a total cut of three-quarters of a percentage point by early 2020. "We think things are going to get worse with more pain to the global economy before a deal can be reached with either China or Mexico," they said in a note.

For McNabb, this could present opportunities. "I am not an economist but I understand that the global economic headwinds will cause us to have continued volatility for some time to come. With volatility comes opportunity, such as more attractive pricing of products and services."

Accountants on the front line



McGregor & McGregor Partner Brendan McNabb

The rate cut and approaching new financial year provide a great opportunity for accountants to contact their clients and offer their help in reviewing their businesses, Bradd says. "It's the perfect time to be taking a business' 'temperature'. And if a business review or restructure is needed, Jirsch Sutherland's specialists are available to provide specialist expertise."

Meanwhile, McNabb says accountants are on the front line to help businesses identify any operational issues. "The traditional accountant who operated as an historian is gone," he says. "With improvements in technology and cloud-based accounting programs, we are now no longer driving the car looking in the rear vision mirror. Clients often know the right answers –

they just don't know the questions. Our job is to guide them to that point and then empower them to make the decision."

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