Australian economy reveals trend to global recession

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In election campaigns, the major parties routinely cover up the actual state of affairs in their efforts to manipulate public opinion. Nowhere can this be more clearly seen than in the discussion over the Australian economy in the lead-up to the federal election on November 10.

The ruling Liberal-National Party coalition is pursuing something of a two-track policy. On the one hand, the prime minister, John Howard, anxious to appear as an international statesman to whom the voting public should turn in difficult and volatile times, has continually emphasised the gravity of the world situation.

Following the decision by the Reserve Bank of Australia earlier this month to cut interest rates by a further 0.25 percent, and its accompanying warning that Australia could not escape the effects of the sharp downturn in the global economy, Howard sought to invest his remarks with the requisite gravitas.

"At a time of greater economic uncertainty and challenge," he declared, "you need experience and strength and steadiness at the helm."

Treasurer Peter Costello, on the other hand, the minister immediately responsible for government economic policy over the past five and a half years, has been keen to talk up economic prospects, lest warnings of troubles ahead reflect badly on the government's record.

While he is well aware that the emerging global recession could be the most serious in the post-war period, Costello nevertheless emphasised that the Australian economy remained "on track". The best estimate of economic growth, he said, was still the 3.25 percent expansion forecast in his budget handed down in May—a forecast issued before the full effects of the downturn in the US had become clear, and before the latest slide into recession in Japan, the sharp decline in East Asia and the slowdown in Europe.

As for the Labor Party leaders, they seem to operate by the maxim "the less said the better," as far as international trends are concerned. Having endorsed virtually all the government's policies over the past three years, their election strategy has been based on the hope that opposition to the Goods and Services Tax—a tax they have pledged to retain—would push them over the line. Hence the central theme of Labor's economic pronouncements is that the GST has "mugged" the economy.

Significantly, neither party has sought to explain the reasons behind the string of corporate bankruptcies in Australia over recent months. This year has seen the collapse of the insurance giant HIH, the bankruptcy of the country's second biggest airline, Ansett, the collapse of telecom company One.Tel, and the shift into voluntary administration by the mining company Pasminco. Major cuts have been announced in the retail industry—spearheaded by Coles Myer which has axed 1000 positions—while South Pacific Tyres has announced two plant closures destroying 900 jobs. Last month, in a two week-period, more than 8,000 workers lost their jobs in the state of Victoria alone.

Nor does either major party address one of the most striking features of the Australian economy—the fact that economic growth, even when sustained over a considerable period, has failed to provide anything like full employment.

According to the latest figures from the Australian Bureau of Statistics, the unemployment rate last month was 6.7 percent. It would have been higher, following the loss of 50,000 jobs over the month, were it not for the fact that the participation rate—the proportion of the population deemed to be seeking work—declined. But the ABS figure, which excludes people from the unemployment total if they have worked as little as one hour a week, is vastly understated. A survey conducted by the Roy Morgan polling company using a different measure found that the jobless rate was around 10.7 percent.

Even understated ABS figures, however, cannot disguise the main trend. The lowest jobless figure in the recent period was the 6 percent rate in September 2000. This means that the lowest point in the present economic cycle was higher than in the previous two cycles in the 1990s and 1980s. In other words, despite economic growth having averaged around 4 percent per annum for the latter part of the 1990s—hailed as one of the best among major industrial economies—the basic unemployment trend is upwards.

And after slowly climbing in the past few months, the jobless rate is set to get significantly worse in the period immediately after the election.

In its latest survey, Dun & Bradstreet found that business conditions will worsen during the December quarter, with the possibility that economic growth will turn negative. The firm's economic consultant, Dr Duncan Ironmonger, said the economic uncertainties created by the events of September 11 had "cancelled the recovery". Sales expectations fell 10 points to 7 percent growth, profits dropped 7 points to 5 percent, and unemployment declined 5 points to minus 1 percent. Employment expectations have fallen 15 points in the past two months, entering negative territory for the first time since last April.

The Dun & Bradstreet warnings reflect the same trends pointed to by the National Australia Bank (NAB) survey of business confidence published last week. It found that business confidence was at its lowest level since the recession of 1991, after dropping by 26 points. The NAB predicted growth for the current financial year ending next June would be 2.5 percent—compared to the government prediction of 3.25 percent—and well below the NAB's own forecast of 3.75 percent made a few months ago. Growth in the calendar year of 2001 is expected to be 3 percent, down from a pre-September forecast of 4 percent.

Commenting on the result, the *Australian Financial Review* of October 10 noted that when business confidence fell, so did economic activity. The record decline in September, it said, is "likely to be the harbinger of an extended period of weaker growth. This time the business confidence free-fall will not be helped, as it was during the Asian crisis, by a booming US economy and ebullient consumer confidence as stock prices rose."

Following the NAB results, the Westpac Melbourne Institute reported that its monthly consumer confidence index had dropped by 9 percent for September, reversing the positive result during five of the past six months.

Even before the events of September 11, there were clear indications that major job cuts were to be carried out. As an article in the *AFR* of October 5 put it: "Downsizing—the mantra of the early 1990s that brought heavy job losses, sharp cost cutting and a zealous approach to budgets—is back with a vengeance."

It reported that the CEO Institute, which represents 400 firms across Australia with more than 24,500 employees, had found in a survey that 61 percent intended to cut budgets and a further 36 percent intended to cut budgets and carry out retrenchments.

Major job losses in September totalled more than 18,500. Since then the telecommunications firm Optus has announced that its profit expectations are down by a third and will axe at least 700 jobs, with the total sackings possibly reaching as high as 1,000.

Apart from the unemployment figures, the other key indicator of the impact of the developing global recession on the Australian economy is the renewed slide of the Australian dollar.

In January 2000, the value of the Australian dollar was US 66 cents—already a significant decline from its rate of US82 cents in late 1996. In early April this year, the dollar hit a record low of 47.75 cents. After recovering slightly in subsequent months, it again plunged following the events of September 11 and has since been hovering around 50 cents, amid fears that it could move still lower.

The Australian dollar is particularly susceptible to the fall in commodity price movements—an expression of global recessionary trends—because agricultural products, minerals, and fuels make up some 57 percent of the country's exports. Copper has fallen by 30 percent over the past year and aluminium by 20 percent, with both metal prices hitting 28-month lows. Zinc has declined by 35 percent to hit a 14-year low and nickel is down 40 percent. The widely followed CRB index of 17 US commodity futures has fallen by 20 percent over the past year and is just hovering above its lowest point in 25 years.

So far, the prices of coal and iron ore, which comprise respectively the largest and fourth largest Australian commodity exports, have held up. But this situation is being described as surreal. According to one industry analyst: "It is a little like a cartoon where the character has already shot off the canyon precipice, legs pumping furiously, but is yet to recognise that he is about to start falling." Like other commodities, the prices of coal and iron ore are expected to drop in response to the spread of recession throughout the world economy.

Three years ago, the Australian economy was able to escape the effects of the Asian financial crisis largely because of the buffer provided by the rapid expansion of the US economy. Today, the situation has been transformed. Now it is the downturn in the US economy that is pushing the rest of the world towards recession. Viewed against this international background, the job cuts and corporate collapses in Australia are an expression of global trends and an anticipation of what lies ahead in the immediate aftermath of the November 10 poll.