

Australian share market's "black Friday": another sign of economic crisis

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11 October 2008

Far from Australian capitalism being sheltered from the global financial storm--as the media and the Rudd government have been claiming for months--the rout of the Australian share markets and dollar demonstrate its great vulnerability amid growing signs of a serious recession internationally.

Yesterday, dubbed "Black Friday" by media commentators, the local stock markets suffered their biggest one-day fall ever in terms of values, wiping off more than \$A95 billion and sinking below the \$1 trillion mark. Prices dropped 8.3 percent--the worst percentage loss since the crash of October 1987--taking the total for the week to 16 percent.

While the Australian falls echoed the huge plunges the previous day in Europe and on Wall Street, investor panic was intensified by clear signs of the end of the decade-long mining boom because of collapsing demand in Australia's biggest markets--Japan, China and South Korea.

The mining and financial sectors led yesterday's collapse, with the energy sub-index losing the most--12 percent--after Chinese steel mills began to slash iron ore orders, and the price of crude oil, which is Australia's fourth-most valuable raw material export, fell to an 11-month low. Adding to the fears were two indicators of a deep downturn across Asia--a 9 percent fall in Tokyo's share index, and Singapore's entry into recession.

Since its peak on November 1, 2007, the Australian ASX200 index has now dropped by 43 percent--a \$750 billion fall--compared to 46 percent between 1929 and 1933, during the last Great Depression. The value of the Australian dollar has also plunged. As recently as July, it was heading for parity with the American greenback amid soaring world commodity prices. Yesterday it fell again to below 65 US cents, 65 yen and 0.5 Euros--a loss of a third of its value in three months.

A weekly ANZ Bank report noted yesterday, "This week the A\$ lost 13 cents against the US\$ to hit a five year low of US\$0.6346 on October 8. Usually, the A\$ trades in a 13c range over the course of a year, not the course of a week!" While volatile hedging and speculative forces are at work, the currency's plight is a bellwether of falling mineral and energy prices. Driven by signs of a global slowdown, commodity price indexes have fallen by as much as 45 percent in the past three months.

The *Wall Street Journal* commented on Thursday: "The depth of the decline is stunning for a major currency and reflects the degree to which Australia finds itself on the wrong side of a number of global trends. The country's active financial industry is suffering

along with peers around the globe. Its big miners and agricultural exporters are extremely tied to the fortunes of growth in Asian markets and around the world and are being squeezed by the selloff in commodities markets. And the country's housing market is turning down."

Rather than being in a strong position to "weather the storm" as the Rudd government still insists, Australia's economy is among the most exposed in the world, precisely because of its extreme dependence on mining and energy exports.

China's steel mills are already asking Australian iron ore miners to postpone deliveries because of tightening credit facilities and reduced demand for steel. The mills have slowed production, sending iron ore prices down 17 percent in the last week of September. Prices and shipments of iron ore and coal to China are predicted to fall by 20 to 30 percent over the next two years, which would lower Australian export earnings by \$20 billion a year and wipe out billions in taxes from the government's projected \$19.7 billion budget surplus.

Previously the major Australian-linked mining companies, such as BHP Billiton and Rio Tinto, backed by the Rudd government, have claimed that the mining boom would continue practically unabated because the Chinese mills were locked into record iron ore and coal prices until early next year. One iron ore exporter, Mt Gibson Iron, has already conceded that the producers now have little choice but to accede to the Chinese requests, regardless of the terms of the 12-month contracts.

Mt Gibson's announcement immediately sent its share price down by 24 percent to 87 cents. Yesterday, the larger iron ore exporters were among the "Black Friday" casualties: Fortescue Metals Group down 19 percent, BHP Billiton 7 percent and Rio Tinto 6.4 percent.

Moreover, as the ANZ weekly report commented: "While the fall in the \$A will help provide relief for some exporters, it is not clear that this will be enough to offset the impact of weaker demand."

Banking crisis looms

Despite the failure of massive government and central bank injections of funds into banks around the world to stem the

financial meltdown, media and market commentators are still asserting that the problem is simply one of "confidence," not the "fundamentals" of the economy.

However, in Australia, as in the US and Britain, the banks and finance houses sought ever-higher rates of return through an orgy of risky lending--also exploiting the inability of ordinary people to live without sinking deep into mortgage and credit card debt.

Apart from mining super-profits over the past decade, Australian capitalism increasingly rested on historically unprecedented levels of household and corporate debt, creating a mountain of artificially inflated values that is now unravelling.

This week's International Monetary Fund World Economic Outlook warned that in the context of the "most dangerous shock in mature financial markets since the 1930s," Australia and New Zealand--which is already officially in recession--were slowing noticeably after "prolonged economic expansions driven by commodity and housing booms".

The IMF warned that together with Ireland and Britain, Australia had "experienced the largest unexplained increases in house prices" over the past decade, with more than 20 percent of the rise not supported by rising incomes and employment levels. Across the countries with the largest house price "gaps"--the others were Norway, France, Sweden and Spain--the IMF expected an average 25 percent fall in the next two to four years.

A housing price fall of that magnitude and the likely accompanying mortgage defaults would call into question the solvency of the banks, which are already being shaken by the freezing up of the international money markets, on which they depend for up to 60 percent of their funding sources.

For all their claims that the banking system is one of the soundest in the world, the Rudd government and the Reserve Bank of Australia (RBA), like their counterparts in Washington and London, are pumping in billions of dollars to shore up the banks.

This week, less than 24 hours after cutting interest rates by a full percentage point, the RBA relaxed restrictions on its repurchase agreements with the banks in an effort to relieve their global funding costs. The central bank will allow them to use risky residential mortgage-backed securities (RMBS) and asset-backed commercial paper (ABCP) as collateral.

The *Australian Financial Review* reported that local banks have this year restructured \$58.35 billion of mortgages that can be sold to the RBA to raise funds. Already, the RBA has bought \$8.14 billion of mortgages since last September, when it previously broadened the range of securities it would accept under its daily repurchasing program.

Yesterday, as the market free-fall continued, the government hastily announced that it would follow the European and US administrations in part-guaranteeing bank deposits. Before the announcement, the *Australian* had reported: "Bank branches have been besieged by depositors worried about the security of their deposits, despite the government's assurances that the financial system is sound."

While, without any public consultation or debate, the Rudd government and the RBA are allocating billions to prop up those responsible for the financial breakdown--the banks and finance houses--millions of ordinary people are being left to pay the price

through the loss of jobs, living standards, homes and retirement prospects.

The first signs of mass unemployment surfaced this week when the Bureau of Statistics reported that the official jobless rate rose from 4.1 percent to 4.3 percent in September, with full-time employment falling by 15,400. The National Australia Bank forecast that the rate would hit 6 percent by the end of 2009--implying the destruction of another 300,000 full-time jobs.

The rising levels of financial stress were highlighted by the latest mortgage report compiled by JPMorgan and Fujitsu. It estimated that about 800,000 households and up to two million small and medium-sized enterprises were living on a knife-edge. The household debt figure was five times higher than in March 2007.

Far fewer people can now afford to buy a home. Another survey reported that the number of people applying for home loans fell by a seasonally adjusted 2.2 percent in August to 48,903, to be more than 25 percent down from a year earlier--the biggest such drop since the mid-1990s. Other results showed that the number of bankruptcies, debt agreements and personal insolvency agreements jumped by 12.6 percent in the September quarter.

Because superannuation and other retirement funds have lost around 20 percent over the past 12 months due to falling share and property prices, increasing numbers of workers are being forced to postpone their retirements or try to go back to work after having retired. A survey of 600 workers has found that, among those 50 and over, 25 percent expected to delay retirement until they were into their 70s.

Asked to respond, Rudd described the superannuation decline as "massive and nasty" but declined to "hold out any false hope" of government assistance, instead saying that workers might simply have to put off retirement. At a joint media conference, Rudd and Deputy Prime Minister Julia Gillard also displayed their indifference toward the unemployment figures, saying they were in line with budget forecasts.

Like their counterparts around the world, the Labor government is intent on bailing out the wealthy corporate elites who are responsible for the economic crisis at the expense of the vast majority of working people. The onset of a severe global recession will inevitably mean a savage new assault on jobs, wages, social spending and retirement plans.



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