

Australia: Key economic indices indicate slide towards recession

Terry Cook, Linda Levin
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Persistent claims by leading Reserve Bank of Australia (RBA) officials and senior government ministers that Australia is well placed to avoid recession stand in stark contrast to a number of economic indices pointing to the depth of the crisis now gripping the Australian economy.

In a transparent attempt to shore up collapsing business confidence, RBA governor Glenn Stevens last week told leading corporate figures at the Committee for Economic Development of Australia (CEDA) annual dinner that “the biggest mistake we could make would be to talk ourselves into unnecessary economic weakness”.

Stevens urged his audience “to go forward with some quiet confidence in our own abilities and in the opportunities that are on offer,” claiming that the “long run prospects for the Australian economy have not deteriorated to the extent that might be suggested by the extent of some of the gloomy talk that is around.”

Earlier this month, the federal Minister of Finance Minister Lindsay Tanner made similar claims on ABC’s “Lateline” program, declaring the “innate imagination, creativity and strength that’s in Australian business, that’s in our workforce, and the solid economic management and positioning of the government will see us through—in far better shape than most other countries”.

Immediately following these attempts at national boosterism came the shock announcement that mining giant BHP-Billiton was pulling out of its multi-billion dollar planned takeover of competitor Rio Tinto. Citing the slump in commodity prices and its impact on “risk dimensions”, CEO Marius Kloppers declared, “It is just not the time to be taking on the level of debt that exists on the Rio Tinto balance sheet”.

BHP-Billiton’s decision to abandon its much-publicised bid, which has already cost the company more than \$US450 million, is yet another indication that the commodities boom, on which the Australian economy has been largely dependent for the past 15 years, has collapsed. Commenting on the decision, *WA Business News* ominously warned that it “decisively marked the end of the five-year global resources boom”.

Prior to the BHP-Billiton announcement, mining analysts were already predicting that slumping commodity markets would result in the slashing of up to \$A30 billion of Australia’s coal and iron ore exports in the next financial year, while Goldman Sachs, the ANZ Bank and Macquarie Group have forecast an average fall of 50 percent in the price of hard coking coal and 30 percent in iron ore prices.

The dismal outlook in the mining industry, which has been the main driver of Australia’s economic growth and budget surpluses during the past decade, was compounded by yesterday’s announcement that China’s growth rate will plummet to 7.5 percent next year, its lowest in nearly 20 years, and down from the World Bank’s prediction just three months ago of 9.2 percent. Last year its growth rate was 11.9 percent. This rapid deterioration reflects the impact of the global financial turmoil on the export-oriented Chinese economy while Japan, Australia’s other major market for iron ore and coal, has slid into recession for the first time in seven years.

Even as Stevens and Tanner were talking up the economy, the Westpac-Melbourne Institute Index of Economic Activity recorded the biggest two-month fall in economic growth expectations since the mid-1980s, “pushed lower by recession fears, plunging household incomes and weaker jobs growth”.

The index, which indicates the likely pace of economic activity over the next three to nine months, plummeted to 1.1 percent in September from 3.5 percent in August. The estimate was echoed by the ANZ bank, which announced it expected Australia’s real GDP to slow from an annual rate of 2.7 percent in the 2008 June quarter to 0.5 percent by the June quarter 2009.

The extent of Australia’s economic downturn has been expressed most sharply in the precipitous fall of the Australian dollar. The commodity-based currency, the sixth-most-traded in the world, and widely regarded as a reliable indicator of trends in global trade, fell to a five-and-a-half year low of US60 cents in late October, down from US98 cents in mid-July—a decline of nearly 40 percent—and is continuing to wallow in the low 60s. In a similar vein, the Australian stock market last week recorded five straight days of losses, leaving the All Ordinaries

Index at 50 percent below last year's November peak. In the past year, around \$900 billion—a little less than Australia's annual GDP—has been wiped off share values.

In the banking sector, **Macquarie Group**, Australia's biggest investment bank, last week announced a massive 43 percent fall in its first-half net profit to \$604 million. The company's share value has plunged from \$77 at the beginning of January to just \$25.58, with CEO Nicholas Moore warning of major job cuts. Investment firm **Babcock & Brown** has been placed in a trading halt, owing its banking syndicate, which includes major Australian banks, Suncorp and 20 foreign lenders, \$3.1 billion. The company has admitted it will likely breach debt covenants and has announced a restructure to slash \$150 million in operating costs, including cutting 600 jobs from its 1,450-strong workforce by 2010. The stocks of the country's "Big Four"—Commonwealth Bank, ANZ, Westpac and National Australia Bank—have fallen between 47 and 58 percent below last year's record highs in the wake of the first decline in combined annual profits since 1992. Global consulting firm KPMG's Major Australian Banks Survey found profit before tax for the sector had slumped 23 percent to \$21 billion and forecast up to 10,000 jobs could be slashed from its 152,000-strong workforce. **Westpac** is expected to axe up to 5,000 jobs as a result of its takeover of St George and the **ANZ** reported it will "spend \$100 million on job cuts, a corporate restructure and on process changes to produce annual savings of around \$200 million from 2010".

In retail, major household goods retailer **Harvey Norman** has announced the closure of two stores after its pre-tax profit for the September quarter fell by nearly 32 percent. Owner Gerry Harvey told the *Australian* he could not predict sales in the next quarter, and warned that more closures were scheduled. "What happens next year between January and June is anybody's guess but many struggling independent retailers will go under," he said.

There are growing signs of the impact of the crisis on the wider economy. JPMorgan economist Helen Kevans warned: "The household sector is facing considerable headwinds owing to weaker conditions in the labour market, a reduction in credit availability, low confidence and falling asset prices." Last week, the RBA admitted that falling house prices and equity markets had cut household wealth by 8 percent in the nine months to September, wiping out about \$32,000 worth of assets on an average family home, shares and savings.

This week, **Qantas**, Australia's major carrier, predicted its pre-tax profits would fall by two-thirds and announced it would pare back expansion plans and cut capacity by the equivalent of 10 planes. The airline announced in July it would lay off 1,500 workers by the end of the year, mothball plans to hire 1,200 staff, ground up to 22 aircraft and close overseas call centres. CFO Colin Storrie admitted that while there was no immediate plan to lay off more staff, if "conditions were worse for longer"

the airline might consider retrenchments.

Across Australia's struggling car industry, production cuts and layoffs are continuing, despite the government's recent announcement of a \$6.2 billion assistance package. **GM Holden** announced it would shut down its plants for an extra 25 days in the coming months due to falling sales and **Volvo** has cut 130 jobs at its truck assembly plant in Queensland.

This week, **Talison Minerals**—which supplies 30 percent of the world's tantalum (frequently used as a substitute for platinum and used to make components for chemical plants, nuclear power plants, airplanes and missiles)—slashed 200 jobs from its Pilbara operations in Western Australia, while rural services business **Elders** said it would axe 140 jobs from its head office in Adelaide and other support centres around the country. The job losses amount to 5 percent of the company's Australian workforce.

Telstra, Australia's largest communications provider, announced it would be retrenching more than 100 staff from its enterprise and government group, which handles troubleshooting issues for corporate clients and a number of state governments using the company's voice and data products.

ABC Learning, Australia's largest childcare provider, was placed under administration earlier this month with debts of more than \$1.6 billion, including \$31 million owed to its 16,000 staff in holiday and long service leave. Receiver Chris Honey said yesterday that 656 of the company's 1,042 centres would remain open after December 31, but that the future of the remaining 386 remained uncertain. ABC Learning's collapse was followed by that of another provider, **CFK childcare group**, which runs 43 centres across NSW and employs 500 staff. The group was placed in receivership, with losses of \$25 million for the year.



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