

Australian economy on edge of recession

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National accounts figures released yesterday by the Australian Bureau of Statistics demonstrated that the economy was already on the brink of recession in the September 2008 quarter—even before the collapse of Lehman Brothers and the ensuing global financial meltdown. Despite government claims to the contrary, several economists are now forecasting contraction in the last quarter of 2008 and into 2009.

Gross domestic product grew by just 0.1 percent in the September quarter, down from 0.3 percent in the June quarter, and lower than the predicted 0.2 percent. Except for a drop of 0.8 percent in December 2000, largely due to the introduction of the Goods and Services Tax, this was the worst performance since the global recession of 1990-91.

Moreover, had the prolonged drought affecting the farm sector not broken, the economy would have shrunk by 0.3 percent. Coming off a very low base, the wheat harvest rose by 50 percent, and agriculture as a whole by 14.9 percent, masking the real state of affairs in the broader domestic economy. As Josh Williamson from TD Securities told the ABC radio's "PM" program last night: "If we look at just the production side of the GDP accounts today, we saw five relatively labour-intensive sectors of the economy, including finance and business, property services, insurance, wholesale trade, transport and personal services, all contract in the third quarter."

In line with the Rudd government's argument over the past months that Australia will weather the global storm and avoid recession, Treasurer Wayne Swan called the result "positive... in the context of a rapidly deteriorating global environment." The government is still sticking to its forecast of annual growth at 2

percent, based on predictions that four successive monthly interest rate cuts by the Reserve Bank of Australia—totalling an unprecedented 300 basis points—coupled with the government's \$10.4 billion stimulus package, will see a sharp rise in consumer spending.

Consumer polls, however, point to a very different trend. Most people intend to utilise lower interest rates and one-off extra funds not to spend, but to pay down record levels of credit card and household debt.

Williamson told the ABC it was "absolutely rational that after a decade of debt-fuelled expenditure growth, we have debt levels at record highs and asset values falling thanks to the collapse in equity prices, a collapse in superannuation and the nascent decline in housing prices, that people will be using any extra windfall gains from government or from their employer to actually pay down debt and rebalance their household budgets." He predicted consumption expenditure would be significantly weaker "for years to come" and that impending recession could not be ruled out.

Even more importantly, since September, the major engine of Australian economic growth—the mining sector—has been hit by plunging prices for coal, iron ore and other commodities. In an article in the *Financial Times* on December 2, Stephen Roach, chairman of Morgan Stanley Asia, pointed out that the growth rate of industrial production in Australia's major commodity export market, China, has been cut in half, "rising at just 8 percent year on year in October following five years of average gains of about 16.5 percent".

The September quarter national accounts were boosted by record contract prices for coal and iron ore, and by a significant growth in mining-related

engineering. The outlook now, according to today's *Australian Financial Review* "appears gloomy, given a rash of mine closures and recent drastic downturns in prices". In an article entitled "Miserable outlook for miners", the newspaper quotes ANZ head of international economics, Amy Auster, saying: "For resources, we've actually got negative quarterly growth in the December quarter, which we didn't have this quarter." The article concludes: "The decline marks a staggering turnaround after seven consecutive quarters of very strong growth from the sector."

At the same time, manufacturing activity declined for the sixth consecutive month in November, while performance in the service sector, the largest component of the Australian economy, declined to its lowest ever level. The Australian Industry Group-Commonwealth Bank of Australia performance of service index fell 4.3 points to 37.8, the weakest reading since the monthly series began in 2003.

The result will be major job losses in virtually every sector of the economy. The major banks are shedding thousands of jobs, and redundancies are underway in the car industry, aviation and the media. Warnings are already being made of job cuts throughout manufacturing industry and in retail in the lead-up to the Christmas holiday period.

According to figures released last week by the Department of Education, Employment, and Workplace Relations, vacancies for skilled jobs have plunged to their lowest level in 15 years. Notwithstanding the government's rhetoric about creating jobs through infrastructure and other spending, analysts at JPMorgan predict unemployment will double from 4.3 percent to 9 percent by 2010.



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