Mining crash signals “unmitigated disaster” for Australian economy

Mike Head
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News of a sharp contraction in China's imports last week has shattered the efforts of the Australian government and media to insist that the local economy will be spared the worst of the global meltdown.

Until now, despite mounting evidence to the contrary, the Labor government has continued to claim that the long-term expansion of China would keep fuelling a massive growth of Australian exports of iron ore, coal and natural gas.

Last week, however, China announced that its exports had fallen for the first time in seven years, down 2.2 percent in November. Even more significant, its imports fell a staggering 17.9 percent, with ominous implications for Australian capitalism, which is heavily dependent on raw material exports to China and other Asian markets.

The Chinese contraction "has marked an end to the resources boom," the *Australian Financial Review*'s editorial declared on Friday. The newspaper warned that global commodity prices, which have already fallen 60 to 70 percent since the middle of the year, could tumble another 50 percent. As a result, it concluded, Australian policy-makers had to be prepared for "less palatable outcomes".

Business Spectator columnist Alan Kohler commented: "It is the final shoe to drop for global recession and spells the end of the super-cycle. There must now be serious doubt about whether the crash in commodity prices since July is a short-term correction. For Australia this is an unmitigated disaster. It virtually ensures that we will spend much of next year in recession."

Last week Rio Tinto announced it would slash its worldwide workforce by 14,000, cut capital spending by $US5 billion next year and sell-off assets to reduce its $41 billion debt burden by 25 percent, marking the first major contraction by a mining conglomerate since the economic turmoil began in 2007. Rio Tinto has been forced into a debilitating retreat by financial markets alarmed at its debt level. The company's share price has fallen 75 percent over the past year, including more than 40 percent in the past fortnight.

Rio Tinto's retrenchments will have a severe impact on thousands of workers and entire communities across northern and western Australia. The company has coal, alumina and bauxite operations in Queensland, iron ore operations in Western Australia, a Northern Territory bauxite mine, a majority share in Energy Resources of Australia's Ranger uranium mine, and coal mines in New South Wales. It has so far refused to say where jobs will be destroyed.

The entire Australian mining industry is being shaken by the global contraction. BHP-Billiton, the world's biggest mining company, last month shipped the least amount of iron ore from Australia in nine months, and said it would defer 5 percent of its shipments this year. Merrill Lynch predicted that the company might need to cut output by about a quarter, or 30 million tonnes, next year because of the slump in world steel output.

As well as refusing to take deliveries of orders, Chinese steel makers are seeking an 82 percent price cut for iron ore next year, to take effect from January 1, cutting short the 2008-09 contracts, which were due to run until April.

Only five months ago, in a June speech to a Canadian business summit, Reserve Bank of Australia governor Glenn Stevens gloated that China was still "running hot" and that iron ore and thermal coal prices would approximately double this year, while those for metallurgical coal would treble. He estimated the rise in real domestic income as about 13 percent of GDP, commenting, "We are talking real money here!"

How quickly the situation has reversed has been underscored by reports that huge losses at Sinosteel, China's dominant metals trading company, caused the temporary shutdown of Rio Tinto's joint venture Channar mine in Western Australia's Pilbara region and will jeopardise development of the nearby Midwest iron ore region. Only recently, Sinosteel president Huang Tianwen was feted in the Chinese business media for winning China's first international hostile takeover bid, when it paid $1.3 billion for Midwest Corporation. The value of that investment has since collapsed to less than $100 million.

Widening job losses

Corporate collapses and job losses in Australia have now spread from the financial sector to manufacturing, services, tourism, construction and mining. Every aspect of life has been affected, including child care, where the bankruptcy of ABC Learning has led

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to the closure of 55 centres, threatening the jobs of 500 staff, despite repeated multi-million dollar bailouts by the Rudd government.

It is clear that worse is yet to come, including in the finance sector. Writing in the *Sydney Morning Herald* last week, Jessica Irvine described the mood in downtown Sydney, the heart of the local finance industry:

"There's a joke doing the rounds of finance workers in the CBD, given added poignancy by this week's decision by upmarket shirt maker Herringbone to go into voluntary administration. What's the definition of optimism in the finance sector? Answer: ironing five shirts on a Sunday night.

"Global financial turmoil is cutting a swathe through Australia's army of finance workers, most of whom call Sydney home. The list of job casualties is beginning to look a veritable who's who of Sydney's city skyline... In the heart of the city, in the building formerly known as the millionaires' factory, Macquarie Bank is tipped to have axed upwards of 1,000 jobs."

According to the chief economist at JPMorgan, Stephen Walters, the job cuts in the sector so far this year are close to 19,000. Among Australia's big four retail banks the losses now stand at 1,000 for ANZ, 179 at NAB and 450 at Westpac. Other well-known casualties include Babcock and Brown (850 people), Insurance Australia Group (600), AMP (210), Axa (90), UBS (50), Deutsche Bank (30), Merrill Lynch (20) and Goldman Sachs (10).

In the manufacturing sector, about 38,000 jobs have been lost over the past 12 months, according to the Australian Manufacturing Workers Union, which predicts that the toll will soon reach 50,000. At least 50 building companies have laid off workers, while retail and service workers are expected to be hit hard after Christmas, with one major home wares chain, Harvey Norman, already foreshadowing the closure of up to 10 loss-making stores next year.

The Bureau of Statistics employment data for November, released this week, estimated that 15,600 jobs were eliminated during the month, sending the jobless rate up from 4.3 to 4.4 percent—the first official marker of rising unemployment. These understated figures, however, do not yet register many of the job losses, and provide no measure of the numbers of workers forced to take cuts in hours or wages.

A better gauge was a 23 percent fall in newspaper job ads in October and November, the steepest fall since ANZ Bank started compiling its data 30 years ago. The number of jobs advertised in major metropolitan papers is down more than 42 percent from a year earlier. The decline of the job classifieds is also contributing to a crisis in the newspaper industry. At Fairfax media, several hundred editorial jobs have been axed so far.

For the past week, Prime Minister Kevin Rudd and his ministers have been frantically urging working people to keep the economy going by spending as much as possible—particularly those pensioners and low-income families who have recently received one-off handouts as part of the government's $10.4 billion "economic stimulus" package. Echoed by the mainstream media, the government is trying to promote the illusion that a Christmas splurge can somehow forestall the escalating crisis in the retail sector and looming recession.

Even if every cent were spent immediately—which is highly unlikely given that most ordinary people are heavily in debt and living on a constant financial edge—it would amount to a drop in the bucket compared to the scale of the downturn. Significantly none of those thrown out of work are receiving any extra financial assistance, in sharp contrast to the billions being given to the banks, car companies and business in lending guarantees, subsidies and tax concessions.

Consumer spending is falling sharply, with car sales dropping 9.5 percent in October as motor vehicle financiers fell victim to the financial crisis. Compared with a year earlier, car sales have fallen 22 percent. The number of new housing projects presented to councils for approval plunged 5.4 percent in October, or 26 percent lower than a year ago.

Responding to Rio Tinto's jobs announcement, Rudd conceded that further job destruction had become inevitable. "The global financial crisis is becoming a crisis for the real economy across the world, which in turn becomes a global employment crisis as well," he said.

Far from stimulus packages coming to the rescue, federal and state government coffers will soon be exhausted. NAB chief economist Alan Oster this week estimated that falling tax revenues and a further deterioration in economic conditions would cause a federal deficit of $25 billion next year, a dramatic turnaround from this year's budget forecast of a $25 billion surplus.

The budget black hole will soon produce demands in business circles for deep cuts to social spending, exacerbating the human cost of the worst economic breakdown since the 1930s.

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