

Global recession triggers sharp downturn in Australia

Mike Head**27 January 2009**

The onset of recession in nearly all Australia's major trading partners has produced warnings that the country has entered a "vicious cycle" of contraction that could last at least five years.

With Britain declared in recession last week, seven of Australian capitalism's biggest markets are now officially in that situation—the others being Japan, the US, South Korea, Singapore, New Zealand and Germany. Another three—China, Thailand and Malaysia—are regarded as possibly already in recession.

Between them, China, Korea and Japan alone take 42 percent of Australian exports, mainly minerals and energy. Last week it was reported that Japan's exports fell a staggering 35 percent in December, compared to a year earlier, and that South Korea's output fell a seasonally adjusted 5.6 percent in the fourth quarter of 2008.

Even more ominous was the news that China's growth had officially slowed to a seven-year low of 6.8 percent in the December quarter, after soaring nearly 13 percent in 2007. This sharp turnaround means that China's economy must have actually shrunk, or nearly contracted, in the last three months of 2008.

These results helped send Australian share prices to new five-year lows, taking the total losses to \$900 billion since the local market's November 2007 peak. The benchmark S&P/ASX 200 index dropped 10 percent in the first three weeks of 2009, taking its plunge to more than half in just 14 months. This fall is one of the worst in the world.

Months of self-serving corporate and government claims that Australia was "decoupled" from the deepening world economic meltdown—supposedly because of China's boom—have been shattered. TD Securities senior strategist Joshua Williamson commented: "We thought we were decoupled from the rest of the world. What we're actually seeing is how coupled we are."

Growing numbers of mining workers are paying the price for the economic breakdown. BHP Billiton, the world's biggest mining company, last week announced 6,000 job cuts internationally, with 3,400 to go in Australia. This was on top of the 14,000 worldwide cuts inflicted by Rio Tinto, about half within Australia, and more

than 5,000 job losses from smaller companies.

In the space of a few months, the mining boom has turned into a bust that is producing virtual ghost towns in remote parts of Australia, with commentators warning that the experience is a microcosm of what the entire country can expect within a year.

Two small towns in southern Western Australia—Ravensthorpe and Hopetoun—are expected to halve their populations following BHP's decision to immediately shut its local nickel project, axing 1,800 jobs overnight. For several years, BHP touted the new mine as a model, based on the construction of a local community, rather than a "fly-in, fly-out" workforce. Now, the schools and other facilities face closure, together with the small businesses that were enticed by BHP to set up in the towns on the promise that the mine would last for three decades or more.

In the western New South Wales town of Cobar, there have been 600 redundancies in the past six months, about 10 percent of the population. Just last March, the management of Cobar's largest mine, the Endeavour, set a 2009 target to excavate a record 1.4 million tonnes of ore. Since then, the zinc price has dropped by 75 percent and staff numbers have been cut by 540.

Large-scale job destruction has also begun in the retail industry, with the collapse of Australia's biggest discount retail chain—the 400-store Crazy Clark's and Go-Lo operation—threatening to throw 4,500 people out of work. David Jones, a department store chain, cut 150 head office jobs and Harvey Norman, a large electrical and homewares retailer, closed a Sydney suburban store.

As many as two million people could be jobless or "under-employed" (working fewer hours than they want) by mid-2010, according to calculations by labour economist Professor Bill Mitchell of the University of Newcastle. Previously unreported figures from the Bureau of Statistics reveal that the labour "under-utilisation" rate is already climbing much faster than the official jobless rate.

While the jobless rate rose from 4.1 percent to 4.4 percent between August and November, the underemployment rate jumped from 5.8 to 6.4 percent, producing a total "labour wastage" rate of 10.8 percent. The official unemployment figures seriously

understate the impact of the crash because they do not count the workers who have had their hours reduced or been forced into part-time work.

Banking and financial stocks have led the latest share market rout, reflecting another vulnerability of Australian capitalism—its reliance on unprecedented levels of corporate and consumer debt over the past 15 years. Since the start of 2009, a new wave of US and European financial and banking crises has thrown fresh doubts over the local banks.

Like their international counterparts, Australian finance houses are being hit by what the *Australian's* economics editor Alan Wood described as the "vicious cycle [that] has started to operate between the financial sector and the real economy". The initial credit crisis has led to recession, undermining the value of financial and property assets, leading to forced sales, and further eroding the asset prices upon which banks have lent billions of dollars.

Shareholders in Babcock & Brown, the country's second largest merchant bank, were told last week that their shares, valued at \$10 billion only 18 months ago, were worthless. While Babcock & Brown, together with the larger Macquarie Bank, was one of the most aggressive lenders and speculators, the so-called big four banks are also bleeding. Shares in National Australia Bank have dropped to a 12-year low, and ANZ to a nine-year low, after a 15.9 percent fall last week.

Economic forecaster Access Economics warned in its quarterly Business Outlook, released last week, that the economy would "unwind scarily fast", costing more than 300,000 people their jobs. "Batten the hatches. This is not just a recession. This is the sharpest deceleration Australia's economy has ever seen," it stated.

Access Economics said the federal budget was "buggered" because of its heavy reliance on company taxes and mining royalties. "The glory days of big budget surpluses are over, and the feds are now staring down the barrel of deficits as far as the eye can see," the outlook said.

The total public sector deficit, which combines federal, state and local government balances, is forecast to blow out to \$10.5 billion this financial year, and \$29.4 billion in 2011-12. Such a shortfall will inevitably mean deep cuts to social spending, and also swamp the Rudd government's capacity to keep bailing out the banks and other corporate giants via so-called stimulus packages.

Because of the rapidly deteriorating economic situation, Prime Minister Kevin Rudd last week cancelled a scheduled overseas trip to India and the World Economic Forum in Switzerland and unveiled yet another bailout plan.

Saying "unprecedented" conditions required "extraordinary" measures, Rudd claimed the government would attempt to protect 50,000 construction jobs by **creating a \$4 billion fund with the**

four major banks to prevent partly-completed commercial property projects, such as shopping centres, industrial complexes and office buildings, being halted by the withdrawal of overseas banks from financing consortia.

Taxpayers would provide \$2 billion, with the remainder coming from the banks. But the potential losses for the government could be far greater. The fund, due to be operating by March, can borrow up to another \$26 billion backed by a government guarantee. Even this amount will not suffice to stop the destruction of an estimated 150,000 commercial property construction jobs. Loans worth about \$75 billion are due to be refinanced over the next two years, just to keep current projects going, not to underwrite new construction.

These property project loans are only part of a bigger picture across the entire economy. According to a recent estimate from Merrill Lynch, the US investment bank, foreign banks accounted for more than half of the \$285 billion in syndicated loans issued to Australian companies since 2006. Many of these loans could be withdrawn because of the losses and collapses being suffered by international banks.

The new fund will be the government's fifth economic rescue package in three months, including unlimited government guarantees for all Australian financial deposits, \$8 billion for the car industry and a \$10 billion pre-Christmas one-off handout, largely to families and pensioners. Writing in the *Weekend Australian*, Andrew Main commented that the \$10 billion "seems to have disappeared like a puff of dust on the wind" because it had been "thrown against a slowing economy".



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