Australian jobless figures point to worsening economic contraction

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16 February 2009

Sharp falls in Australian job advertisements, followed by a worse than expected rise in official joblessness, have further undermined hopes in business circles that the Rudd government's multi-billion stimulus packages and record cuts in interest rates could prevent the local economy from being swamped by the deepening global recession.

The jobs statistics indicate that more than a million people are likely to be out of work in Australia by next year. The latest ANZ bank jobs ads series showed that the number of advertised positions dropped 6.3 per cent in January. After nine consecutive months of decline, the number of ads has fallen 34 percent in the past year. Economists regard these results as an early warning—about six months ahead—of the actual decline in employment ahead.

The Australian Bureau of Statistics (ABS) reported that the **unemployment rate rose to a seasonally adjusted 4.8 percent in January, compared with an unchanged 4.5 per cent in December. The number of people out of work rose by 36,800 to 540,200, with the number of people actively looking for full-time work jumping by 29,900.** The ABS figures include anyone working more than an hour a week.

HSBC chief economist John Edwards said most forecasts put the jobless rate at between 7 percent and 8 percent within a year, which means the total will climb to over one million, even by the official measure. "We haven't really seen the employment impact of the global downturn yet in the Australian market," he said.

One business survey found that two-thirds of companies now expect to cut staff this year, despite already taking measures to slash labour costs in efforts to avoid outright sackings. The Hewitt Associates survey reported that 87 percent of companies had frozen new hiring, 54 percent delayed salary rises, and 52 percent forced people to take accrued leave.

Falling consumer confidence surveys reveal growing concern among ordinary people that much worse is to come, despite the government's $88 billion worth of financial bailout packages and the Reserve Bank's cutting of interest rates by 4 percentage points to their lowest levels in nearly 50 years.

The Westpac-Melbourne Institute Index of Consumer Sentiment fell 4.6 percent in February to 85.8 points. That came on top of a 2.2 percent drop in January and left the index 11.9 percent down on February last year. The largest fall of 16.5 percent was in the component reflecting economic conditions in the next five years, indicating that people are concerned about the long-term effects of the global downturn.

Westpac chief economist Bill Evans said the fall came as a surprise, especially considering that the major banks had passed on the latest interest rate cut to their home loan customers. While consumers felt better about their own finances at present that was drowned out by fears about the economic outlook.

"This is a truly unique result," he said, commenting that consumers were "unusually fearful of the future". "We have never seen, in the 35-year history of the survey, such a divergence in current conditions and expectations. This is a serious challenge for policy."

Home loan approvals gained 6.4 percent in December from the previous month, boosted by first home-buyer grants in the government's pre-Christmas $10 billion stimulus package. However, new car sales fell a further 18 percent in January.

Australian Financial Review economics correspondent Adrian Rollins commented: "The latest economic data suggests increasing job insecurity could frustrate attempts to ignite domestic demand and stifle any recovery, with consumer confidence falling sharply this month despite the announcement of the huge stimulas package and a cut in the official cash rate to its lowest level in decades."

Business confidence also fell to record lows in January, more than reversing the slight rise in December, sparked by the government's stimulus package. The National Australia Bank's monthly business confidence index tumbled 12 points to negative 32. NAB chief economist Alan Oster commented: "Business has seen the government's initiative go through and it hasn't lasted in to January."

Looking ahead, the majority of companies expect profits and sales to decline in the June quarter. The latest Dun & Bradstreet National Business Expectations Survey reported that 53 percent of firms anticipated declining sales and 60 percent expected declining profits. The employment indicator had dropped to the lowest level recorded by the survey.

A new wave of reports of corporate losses and profit downgrades has begun as companies release their results for the second half of 2008. BHP Billiton slashed its half-year profit by 57 percent to $4.18 billion, with chief executive Marius Kloppers saying the company had not foreseen the dramatic nature of the downturn. Qantas suffered a 66 percent fall in its half-year profit to $210 million and building materials manufacturer Boral reported a 44 percent drop because of the weak housing market in the United States.

Despite benefiting to the tune of hundreds of millions of dollars from the Labor government's deposit and lending guarantees, the Commonwealth Bank's cash profits--the industry's preferred measure of earnings--dropped to $2.01 billion from $2.38 billion for the corresponding period a year earlier. The result included a fivefold jump to $1.6 billion in doubtful debt provisions as a result of the bank's exposures to failed corporates such as ABC Learning and Allco Finance Group. Analysts expected the bad debt expenses to run up to as much as $2.7 billion this year.

Experienced commentators have begun warning of a deep and prolonged slump like the 1930s. Interviewed on the ABC television's "Four Corners" program this week, Robert Gottliebsen said: "This crash has been different to any of the ones I've watched and I've been watching them since 1960, and this one is global and it got right into the global banking system. Now the last time we had this was 1930."

Asked how long the crisis would last, he replied: "If the Chinese situation can be stabilised, then, you know, in a couple of years, two or three years. If China gets into real trouble and America gets into deeper trouble it will take a lot longer."