Australian economy heads into recession

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5 March 2009

The latest statistics have put paid to claims by the Australian government that the economy is weathering the global storm better than most and that its stimulus packages would help stave off recession.

Economic data released yesterday showed that the country's Gross Domestic Product contracted by 0.5 percent in the December quarter of 2008, the first negative result since 2000 and the worst decline since the 1990-91 recession. Non-farm output plunged by 0.8 percent, the second consecutive quarterly decline (farm production actually rose more than 10 percent as the drought partially ended).

GDP growth for the year to December 2008 was 0.3 percent, the lowest figure for 17 years. However, the final quarter result—an annualised contraction of 2 percent—indicates that the Australian economy is rapidly following the US, Japan and Europe into recession, or is already in one.

The statistics were far worse than predicted. A median forecast of 23 economists surveyed by Bloomberg had forecast 0.2 percent growth in the December quarter. "Every forecaster got it wrong," Chris Richardson of Access Economics told the ABC television "Lateline" program last night. He warned that GDP would "shrink again next quarter" and that forecasts of unemployment rising to 7 percent by next year would have to be revised upward.

Treasurer Wayne Swan admitted that official forecasts contained in the February mini-budget just four weeks ago, including a downgraded growth estimate of 1 percent for this financial year and revenue decreases of $115 billion over four years, would have to be revised again. Falling revenues will undermine the government's capacity for further stimulus measures.

The government's bailout packages—worth more than $90 billion in total, plus unlimited guarantees of bank deposits and borrowing—have been swamped by the deepening global economic and financial crisis. All of Australia's main export markets are either in recession, or, as in the case of China, contracting rapidly.

Corporate economists were pessimistic. Joshua Williamson, a senior strategist at TD Securities, called the result "a massively, massively weak number". NAB Capital chief economist Rob Henderson said the "dreadful" figures showed the economy was in recession, even though there had not been two consecutive quarters of contraction.

Manufacturing was worst hit—suffering a massive 4.7 percent fall in output, or an annualised drop of almost 19 percent. Machinery and other metal products, chemicals and paper industries all dropped more than 5 percent in three months. Transport was down 2.4 percent, reflecting weaker manufacturing activity. But the falls spread across the economy. The major utilities—electricity, gas and water—dropped by 1.5 percent, while construction's long boom came to an end, and service industries, including hairdressing, cinemas, accounting and finance, all fell.

Despite government cash handouts to pensioners and families worth $8.7 billion in December, and a 400-point cut in official interest rates over the past five months, household spending rose only 0.1 percent. The data indicates that living standards are already falling. Facing unemployment or drastic cuts to working hours, people are reducing purchases and trying to pay off mortgages and credit card debts, which had risen to

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unprecedented levels.

Household savings rose from $5.7 billion to $15.1 billion, or 8.7 percent of disposable incomes, its highest level since the middle of the 1990-92 recession, while spending fell on cars, recreation and eating out. Other statistics released yesterday showed new car sales were down in February to 21.9 percent below a year earlier, accelerating the fall of 18.5 percent in January.

A far deeper economic decline lies ahead. The December quarter GDP figures were still buoyed by the lingering momentum of the 17-year resources boom, with business investment in new capacity rising 1.1 percent in the three months. Contract prices for coal and iron ore exports, Australia's largest commodity exports, remained at record levels. With these prices about to be slashed, the Australian Bureau of Agricultural and Research Economics has predicted that the value of commodity exports will fall 17 percent in 2009-10: from $196 billion to $162 billion.

Business are already feeling the impact of steep declines in revenue, collapsing asset prices and mounting debt problems. Pre-tax company profits fell by an average of 17.8 percent in the December quarter.

Heading the list was Westfield, the world's largest shopping mall operator, which posted a net loss of $US2.2 billion for the year to December 31—a reversal of more than $5 billion from the net profit of $3.44 billion in the previous year. Apart from falling retail sales and rents, the company was hit by plunging property and business values. It wrote down $1.3 billion in financial instruments and $3.34 billion in asset values, compared with a $2.12 billion increase in valuations a year earlier.

Other large companies reported similar profit collapses, and many unveiled devastating job cuts. These included the Lend Lease property development group (2,000 jobs worldwide); Pacific Brands, the country's largest clothing manufacturer (2,800 jobs); building products and sugar maker CSR (539 jobs); Virgin Blue Holdings, the second biggest airline (400 jobs); and Fairfax Media, the second largest newspaper group (550 jobs).

Another ominous sign came from the Ten television network, which not only announced a 28 percent profit fall, and write-downs of $148 million, but was forced to abandon the issue of 120 million new shares. Like Pacific Brands, Ten and many other companies are now effectively in the hands of the banks, which are refusing to rollover their huge debts without a ruthless restructuring of their operations.

These corporate losses have in turn placed a growing question mark over the solvency of the major Australian banks, despite receiving billions of dollars in support from the government. As of this week, the "Big Four"—the Commonwealth, Westpac, NAB and ANZ—are all on negative credit watches by the international ratings agencies. Moody's Investors Service warned that the global crisis would have a "protracted impact on the banks' asset quality and earnings" in the years ahead.

Increasingly strident calls are being made in the media for stepped-up measures to impose the full burden of the economic meltdown onto working people. The *Australian*'s economics editor Michael Stutchbury this week called on Prime Minister Kevin Rudd to "get radical" by shelving unfair dismissal laws, ending cash handouts and scrapping the "excess of middle-class welfare entrenched during the boom"—a euphemism for basic social programs such as health, education, housing and welfare payments.

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