Australia's economy "under-performs expectations" in September quarter

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Official data released this week showed that despite a mining boom, the Australian economy would have suffered negative growth in the third quarter of 2010, except for an extraordinary 21.5 percent boost to farm production following the end of a decade-long drought. In seasonally adjusted terms, gross domestic product grew just 0.2 percent, while non-farm GDP actually fell 0.2 percent.

The result confounded market economists, who generally predicted quarterly growth of at least 0.5 percent. Writing in the *Australian*, Scott Murdoch commented that "the economy dramatically under-performed expectations." The near-contraction occurred despite record high commodity prices for mining and energy exports, and the Gillard Labor government's estimate that $133 billion of resource projects were at an advanced stage of development, or around 10 percent of Australia's annual $1.3 trillion in GDP.

The government claimed the reversal amounted to a mere blip. Treasurer Wayne Swan insisted it was simply a "bump in the road for our economy" and "Australia's economic fundamentals and growth outlook remain very strong."

Nevertheless, the statistics highlight the vulnerability of Australian business to the global financial crisis, which is deepening across Europe and the United States. The figures also underscore how quickly any slowdown in China can impact on Australia.

Export volumes fell 2.4 percent in the September quarter, largely because demand from China for iron ore and coal declined. The Beijing regime moved to slow an overheated economy in order to stem soaring property prices and inflation, which are fuelling widespread popular discontent.

Apart from China's problems, a number of other factors caused the near-contraction, all pointing to mounting contradictions beneath the surface of the mining boom. The rise of the Australian dollar to almost parity with the US greenback has priced many non-mining exports out of slump-hit overseas markets. Except for mining, business investment has stagnated, failing to fill the gap left by the withdrawal of the Labor government's multi-billion dollar stimulus packages. New home sales and consumer spending have plunged, reflecting the financial hardship being experienced by millions of working people.

According to the Australian Bureau of Statistics, with the exception of agriculture, almost every industry either slowed or went backward during the quarter, including mining, construction, wholesale and retail trade, and information technology. Construction fell 0.9 percent, and mining 0.7 percent. There was a relatively weak 0.3 percent growth in household consumption, but that was met by businesses running down stocks rather than lifting production. Inventories fell 0.8 percent, following a 0.5 percent drop in the second quarter, suggesting businesses are not counting on sustained economic growth.

The September quarter results were the worst since the December quarter of 2008, when the economy contracted by 1 percent under the immediate impact of the worldwide financial breakdown. The near-contraction is a sharp drop from the June quarter, which recorded 1.1 percent growth. Over the past year, GDP has expanded by just 2.7 percent, well below the forecasts of the government and the Reserve Bank of Australia (RBA), which predicted 3.5 percent GDP growth in 2010.

Several commentators sounded warnings about the country's reliance on China and the export of raw materials. Macquarie bank economist Brian Redican said the figures highlighted the dominance of the resources sector. "If mining output is disrupted or investment plans are delayed, there's nothing to fall back on," he said. CommSec equities economist Savanth Sebastian said: "The data is certainly a wake-up call to those focusing unduly on the mining boom and neglecting the other 90 percent of the economy.”

When the data was released on Wednesday, the $A fell to a 10-week low of around US95.5 cents. Although it has since recovered to about US97.5 cents, its volatility is a sign of nervousness in international money markets. Because of the dependence of Australian capitalism on exports to Asia, which itself relies on exports to Europe and the US, the Australian dollar acts as a barometer of wider concerns. Westpac Bank currency strategist Robert Rennie commented: “There are plenty of things fuelling risk aversion. Of course, worries over Europe, as well as the threat of Chinese policy tightening … And there are the tensions on the Korean peninsula, and the risk of softer data in Australia over the next months.”

The shock GDP result is partly due to the exhaustion of the stimulus packages that the government implemented from late 2008 to prop up the banks and other key businesses, including the construction, housing and motor vehicle giants. Government investment spending actually rose 1.9 percent in the September quarter, following a 4 percent decline in the June quarter, but this was still far below the increases of 10 percent or more in the preceding three quarters.

Other statistics released this week highlighted what has been dubbed the “two-track” economy that has emerged since the 2008 crash—with mining, banking and finance company profits soaring, with the rest of business stagnating or going backward.

Overall capital expenditure jumped 6.2 percent to an inflation-adjusted $28.8 billion in the third quarter. This was largely due to spending by mining companies, which was up 15.6 percent. Investment in plant and machinery, by contrast, defied expectations, dipping 1.1 percent, the third straight quarter of decline.

A manufacturing industry index confirmed the slump in that sector, amplified by increasing borrowing costs and the dollar’s rise against the US greenback. The Australian Industry Group-PricewaterhouseCoopers Australian Performance of Manufacturing Index fell 1.8 points to 47.6 in November. Readings below 50 indicate contraction in activity. The new orders sub-index remained at the even lower level of 43.3, indicating an ongoing downturn.

Hard-pressed consumers are increasingly unable or unwilling to spend. Retail sales plunged 1.1 percent in October, seasonally adjusted, and September’s sales growth was also revised down to an increase of just 0.1 percent. The biggest fall was in restaurants, cafes and takeaway food (down 4.8 percent), with clothing footwear and personal accessory sales down 4.6 percent.

These results point to the difficulties facing ordinary people, even before last month’s 40-point or more increases in home mortgage interest rates by the RBA and the major banks. Over the three months to October, seasonally adjusted new home sales fell by 9 percent, down by 17 percent when compared to the three months to October last year.

Beneath these statistics lies the widening gulf between the wealthiest layers of society, particularly those benefiting from mining, banking and property revenues, and working people, who face mass unemployment, as well as growing insecurity, via the transformation of fulltime jobs into casualised or part-time work.

Data published by former Labor senator John Black in the *Australian Financial Review* this week showed that inequality, as measured by the unemployment gap between rich and poor regions, has increased since Labor took office three years ago. The gap, which was 1.8 percent when the Howard Coalition government was defeated in November 2007, is now 2.6 percent and widening. While official unemployment rates in prosperous and inner-urban middle-class suburbs have fallen to an average of 3.7 percent since 2008, the average level in poorer areas is close to double digits.

The main concern of the media commentary, however, was how much more difficult it would be for the government to meet its pledge to wipe out the budget deficit, which was created by its stimulus package bailouts, by 2012-13. The lead article in yesterday’s *Australian Financial Review* warned: “Weaker growth will make it harder for the government to achieve its budget deficit reduction targets, and puts into doubt official forecasts pointing to a substantial pick-up in the economy.” The September GDP result will intensify demands from financial markets and the corporate elite for the government to implement austerity measures to slash the deficit.