## Australia's two-track economy: Industrial decline, despite mining boom

Mike Head 19 January 2011

Data released over the past two weeks in Australia has provided further evidence that beneath the surface of the mining boom, there is a continuing slump across significant areas of the economy, and a deepening decline in manufacturing industry. Despite official and media claims that Australia has "weathered the storm" of the global financial crisis, there are also indicators of widespread social hardship, and of chronic unemployment among young workers.

Soaring mining exports, especially to China, combined with rising commodity prices (up 48 percent during 2010), have driven the Australian dollar up 14 percent over the past year, to around parity with the American greenback. However, this has intensified the cost pressures on other sectors of the economy. Recent statistics show a protracted slide in manufacturing, slowing jobs creation, stagnant retail sales and falling housing starts.

The latest unemployment figures were released last week. The official unemployment rate decreased 0.2 percentage points to 5 percent in December, according to the Australian Bureau of Statistics (ABS), but the number of people employed increased by only 2,300 people to 11.417 million, seasonally adjusted. This was far below economists' expectations of jobs growth of up to 40,000. The headline jobless statistic dropped only because more people gave up looking for work—the labour force participation rate fell to 65.8 per cent, down 0.2 percentage points from November.

More revealing was a drop in seasonally adjusted monthly aggregate hours worked, down 3.4 million hours in December to 1,599.0 million hours. This statistic provides a truer picture of the level of paid work, and indicates that an upturn in hours worked during 2010 has begun to reverse. The level of hours worked is now only marginally above pre-crash peak in July 2008, despite a growing population.

According to the ABS's trend estimates, which smooth out monthly fluctuations, more than 600,000 workers remain jobless. The number of unemployed has fallen from 671,900 in August 2009, at the depth of the downturn, to 618,800, but this is still 150,000 more than in March 2008 before the global financial crisis. These figures do not account for the large numbers of underemployed workers, estimated to be at least as many as the officially unemployed, who have been forced into part-time, casual or temporary work.

One little-reported feature of the mining industry is that it employs relatively few people. The latest available ABS figures indicate that in mid-2009, mining employed 135,000 people, just over 1 percent of the national workforce, a percentage that barely rose during the previous decade. By contrast, manufacturing, which employed 17.5 percent of the workforce in 1984—then the largest sector—dropped to 9 percent.

The impact on young people has been devastating. Teenage employment fell throughout 2010, meaning that, overall, none of the nearly 300,000 jobs created last year helped the employment prospects of those aged 15 to 19.

Market analysts were surprised by the latest jobs results. CommSec economist Savanth Sebastian described the performance of the labour market over the past year as "certainly phenomenal" but warned that jobs growth could be "less robust" in the near-term. "It is clear that the pace of jobs growth in the early part of 2011 is likely to be more sedate," he said.

There are definite signs that over-stretched and heavily indebted working class families are cutting back on spending, including on food. Retail sales dropped in real terms over the past year. The latest ABS retail trade figures showed that retail turnover rose just 0.3 percent in November, seasonally adjusted, following a revised fall of 0.8 percent the previous month. Turnover fell in food retailing (-0.1 percent). The overall trend turnover was

flat (0.0 percent), continuing a three-month stagnation, and had only risen 2.3 percent over 12 months—less than the official inflation rate of around 3 percent.

Many aspiring new homebuyers have been priced out of the market again. The total number of dwellings approved fell 4.2 percent in November 2010, in seasonally adjusted terms, after rising 8.3 percent in October. In part, this reflected the impact of higher mortgage interest rates, with the Reserve Bank and the big four private banks raising them seven times, by a total of 1.5 to nearly 2 percentage points, over the past 18 months. Homebuyers were worst-hit—the value of residential building fell by 5.9 percent in November while non-residential building rose by 1.4 percent.

A business survey showed that manufacturing activity contracted in December for the fourth month in a row, with weak domestic demand, the higher dollar and interest rate hikes exacerbating the 30-year decline of basic industry. The Australian Performance of Manufacturing Index declined 1.3 points to 46.3 last month—its lowest level since December 2009. Readings below 50 points represent a decline in activity. Moreover, the new orders sub-index remained even lower, at 44.3, suggesting there was no immediate improvement in sight.

The manufacturers' body that sponsors the index, the Australian Industry Group, said the high dollar was heaping pressure on domestic manufacturers by reducing import prices, particularly in the clothing and footwear sector, which dropped to 27.3 points. Chief executive Heather Ridout said the mining boom was worsening the "accumulating structural pressures" on the sector and warned of "the risks of becoming an unbalanced and insufficiently diversified economy into the future".

Ridout's comments highlight the reality that the Australian economy has become heavily dependent on exporting raw materials, particularly coal, iron ore and gas, to China and other Asian markets. It is therefore very exposed to any slowdown in China, which is wracked by its own economic and social contradictions and confronts growing tensions with the US.

Departing federal Treasury secretary Ken Henry recently described the Australian economy as a three-speed one—made up of fast-growing mining and mining-related sectors, other trade-exposed industries such as manufacturing, and non-traded sectors growing at a rate somewhere in between. The erosion of manufacturing, however, taken together with the jobs, retail sales and housing figures, confirms the existence of a two-track economy, with mining booming at the expense of many

other sectors.

Responding to the manufacturing data, JPMorgan chief economist Stephen Walters warned that Australia's recent economic performance was "unimpressive" for an economy that "all but avoided the fallout from the global recession" and was "enjoying the early stages of unprecedented mining and terms-of-trade booms".

Gross domestic product (GDP) figures released last month showed that the Australian economy would have contracted by 0.2 percent in the third quarter of 2010, except for a 21.5 percent boost to farm production following the end of a decade-long drought. The floods that have since devastated many farming areas across Queensland and other states are likely to reverse that result. Economists have forecast that the flood disaster, which also paralysed Queensland coal exports and extensively damaged transport infrastructure, could slice up to 1 percent, or \$13 billion, off the GDP over the next year.

Employers and the corporate media are making increasingly strident calls for the burden of the looming downturn to be placed on the working class. They seized on the manufacturing figures to demand cuts to real wages, as well as the expansion of business migration programs in order to secure supplies of cheaper labour.

The Australian Performance of Manufacturing Index actually reported that average wages have fallen significantly since the 2008 crash, dropping from 70 to 62 index points. But Australian Chamber of Commerce and Industry chief executive Peter Anderson said the bleak outlook for manufacturers sent a strong message to trade unions that wage rise negotiations should be "economically responsible".



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