Sharp GDP downturn reveals fragility of Australian economy

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Recent economic shocks have again demonstrated the vulnerability of Australian capitalism to the ongoing global economic crisis, and its growing dependence on minerals exports to Asia, especially China.

Gross domestic product (GDP) fell by 1.2 percent in the first three months of the year, the first downturn since December 2008, in the opening stage of the financial crash. The drop, far larger than predicted by the Labor government of Prime Minister Julia Gillard, was the largest quarterly reversal since the recession of 1991.

Half the contraction came from the mining industry, where output fell by 6.1 percent, mainly due to lower production and export of coal from the state of Queensland. Flooding and a cyclone knocked out mines and key rail lines, driving down national coal exports by 27 percent in the quarter.

Agriculture also fell by 8.9 percent, while manufacturing dropped 2.4 percent, accelerating a long-term decline.

The Labor government, which depends for its survival on the votes of Green and independent parliamentarians, sought to play down the result. Desperate to maintain the claim that Australia had uniquely weathered the global storm and was set for unprecedented prosperity, Treasurer Wayne Swan insisted: “Growth should recover strongly as mines return to more normal levels. Australia’s terms of trade are at record levels and a strong pipeline of mining investment is now well underway.”

Financial markets and economic commentators, however, pointed to the country’s underlying exposure to the slump in the United States, the worsening European debt crisis, and signs of slowing growth in China.

The quarterly data highlights the narrowing of Australia’s economic base. Nearly half of all exports go to two countries—China and Japan—and a similar percentage of the export revenues come from just two commodities, iron ore and coal. The *Wall Street Journal* noted that the economic contraction “exposed the nation’s growing dependence on mining revenue.”

The credit ratings agency Standard & Poor’s last week warned that prices of coal and iron ore could drop by as much as half in the event of a “severe downturn” in China: “With commodities prices having been at or near record levels earlier this year, and subsequently subsiding only modestly, Standard & Poor’s is naturally concerned that the current situation represents an unsustainable bubble, subject to a sudden correction.”

Standard & Poor’s warned that even a “significant deceleration” in China and other “emerging economies” could cause the bubble to burst. Coking coal prices could drop from $US180 a tonne to between $100 and $120, and iron ore prices from $175 to $85-$95 per tonne.

At the same time, Australian treasury modelling has underscored the intensifying destruction of manufacturing jobs. Ten years ago, manufacturing employed 1.08 million people in Australia, about 12 percent of the workforce. Today, it has shrunk to 990,000, or 8.8 percent of total jobs.

By 2020, manufacturing employment is projected to shrink by 17 percent, wiping out 170,000 more jobs, or twice as many as during the previous 10 years. The modelling assumed that the near record-high level of the Australian dollar and terms of trade would last for the decade.

Record mining sector investments will create relatively few opportunities for workers. According to the treasury modelling, mining output will surge by 65 percent by 2020, but the number of jobs in mining and construction combined will grow by just 23 percent, adding 280,000 places.

The modelling reflects the fact that the mining boom has become a mechanism for the savage restructuring of other industries. Higher commodity prices and an appreciating national currency has escalated the cost pressures and undermined export competitiveness for manufacturing and other sectors of the economy. Contrary to the Labor government's claim of universally shared prosperity through the mining boom, the working class is confronted with large-scale job destruction, losses of working hours, deteriorating employment conditions, and soaring living costs.

Over the past year, the Reserve Bank has also lifted official interest rates to 4.75 percent—one of the highest rates in the world—in an effort to suppress non-mining spending and wage levels. This Tuesday, the bank left rates on hold for another month, but has previously stated that they must rise "at some point" to contain inflation.

Just before Tuesday's bank decision, in a bitter comment reflecting the pressures on non-mining business sectors, *Business Spectator* columnist Robert Gottliebsen declared that much of the economy was already experiencing "a significant downturn which may even be a recession." He demanded that the bank not raise rates and tell the Australian people the truth: that the bank was "considering bringing on close to a recession in non-mining Australia so we can have a boom in mining Australia." He accused the government and the treasury of using the Reserve Bank to "put the boot into most of Australia and kick the people and businesses hard so the wage pressures do not spread."

Two recent sets of data highlighted the recessionary conditions developing across many sectors of the economy. Job advertisements slid 6.5 percent in May compared to April, marking the second consecutive month of falls. The ANZ bank jobs ads index was still 34.8 percent below its April 2008 peak.

The construction industry contracted for a 12th straight month in May, badly affected by higher interest rates, credit constraints imposed by anxious banks and the withdrawal of the Labor government's stimulus spending. The Australian Industry Group-Housing Industry Association Performance of Construction Index rose 1.7 points, seasonally adjusted, but at 39.6 remained well below the 50-point level that separates expansion from contraction. Apartment building was particularly weak, falling to 25.3.

A Nielsen poll this week found that consumer confidence dropped in the first three months of this year amid rising food and fuel prices, and fears of higher interest rates. Household spending declined in many areas, notably on gas and electricity, new clothes and takeaway meals.

The corporate elite has responded to the latest GDP figures by instructing the Gillard government to step up its cuts to public spending and other austerity measures.

An editorial in the *Australian* on June 2 and entitled "GDP figures show we need ongoing economic reform" stated that the economic contraction was "a salient warning of the medium-term risks". It continued: "If the world economy slows or China loses control of inflation and then is forced to overcorrect, we could face a contraction on the demand side. This is the possibility [Treasurer] Wayne Swan must focus on... There can be no time to waste reining in government spending and forging a reform agenda but the budget dodged these issues by delivering only $2.7 billion in net savings over four years."