

Further signs of economic downturn in Australia

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The worst retail sales statistics in 50 years, combined with new data indicating the destruction of thousands of jobs, point to a deepening slump throughout most of the Australian economy, with the only major exception being the booming mining sector.

As well as underscoring the financial stresses confronting working people, the results have compounded the mounting anxiety in business circles about the impact of the recessionary trends emerging in the US and Europe, and their flow-on effects in China, Australia's largest export market.

Retail sales fell for the second month in a row in June, down 0.1 percent after May's 0.6 percent slump. More significantly, sales rose just 2.6 percent during the 2010-11 financial year—the worst result since the 1961-62 recession. When adjusted for inflation, sales barely grew, rising 0.6 percent, less than the rate of population growth.

Media commentators generally presented the historic decline as the result of households simply saving more, or spending more on-line, but a closer examination of the statistics indicates the real hardship being experienced by the working class. The biggest falls were in non-food spending, as expenditure on food and utilities consumed greater proportions of weekly budgets. Despite intensive price discounting, department store sales suffered the biggest monthly decline for all industry groups, dropping 3.2 percent in June and 4.9 percent over the year.

With 1.2 million people employed in the retail sector—more than a tenth of the national workforce—these results are already producing devastating cuts to jobs and working hours. Department stores, bookstore chains and clothing retailers have announced hundreds of retrenchments, or drastically curtailed casual workers' hours. Moreover, the retail

figures came on top of recent data showing falls in car sales, house building, business confidence and manufacturing output.

The Labor government, whose May budget was premised on claims that the country was headed for a minerals-driven bonanza, is trying to play down the latest figures. Commenting on the retail sales figures, Treasurer Wayne Swan insisted that “the underlying fundamentals across our economy are strong,” while conceding that “not everybody is in the fast lane of the resources sector.” Only months ago, Swan declared that the mining boom would deliver unprecedented “opportunities” for the entire population.

There are indications that non-mining companies have started to “retrench workers on a massive scale,” leading to a further contraction in consumer confidence, according to *Business Spectator's* Robert Gottlieb. He cited results from the Roy Morgan polling company, that employment in July dropped by 418,000 to 10,802,000, with the falls affecting both the full-time employed, at 7,421,000 (down 219,000), and part-time employed, at 3,381,000 (down 199,000). This is the biggest monthly fall in employment ever recorded by the Morgan survey, which also reported a rise in unemployment from 7 percent to 7.6 percent.

Over the past decade, the Morgan surveys have consistently produced worse results than those of the official Australian Bureau of Statistics. The bureau estimated that the jobless rate remained unchanged in June at 4.9 percent, but its figures systematically understate the true picture. The Morgan survey's July fall in employment, which followed four straight months of rises, took its result back to the levels of February, suggesting a collapse of the slowly rising trend that occurred during 2010.

There was another indication of the sharp turn in the

economic conditions when the Reserve Bank of Australia this week left the cash rate at 4.75 percent for the ninth month in a row. There had been intense speculation on the financial markets that the central bank would lift rates after last week's inflation figures—3.6 percent annualised for the June quarter—exceeded economists' expectations and the bank's targeted annual range of 2-3 percent. Food prices rose sharply—up by 6.1 percent between June 2010 and June 2011—hitting working class households the most.

In its explanatory statement, the bank expressed concern about rising inflation, which is being fuelled by the mining boom, but said the “acute sense of uncertainty in global financial markets over recent weeks” made it inadvisable to raise interest rates at this point. The comments provided a revealing insight into the nervousness and uncertainty gripping the corporate elite over the prospects for the world economy.

The bank's retreat from previous statements foreshadowing rate rises also highlighted the divergence between the mining-related industries, where investment and profits are soaring, and the depressed state of manufacturing, retail, tourism, education, housing and other sectors. Previously dubbed the “two-track economy,” this phenomenon was this week labelled the “boom and gloom economy” by Australian Industry Group (AIG) chief executive Heather Ridout.

The central bank's decision was hailed by sections of the media and business elite that had campaigned against a rate rise, loudly warning that it would have catastrophic consequences for consumer spending. “With Europe still teetering on the brink of a new sovereign debt-inspired crisis, the US only just avoiding one of its own politicians' making and both major economies at risk of sliding back towards recession, it would have made even less sense to rush to raise rates here,” Stephen Bartholomeusz wrote in *Business Spectator*.

Under these conditions, pressure is intensifying on the minority Labor government to slash social spending, cut corporate taxes and deliver other pro-market restructuring in order to drive down labour costs in preparation for global economic shocks, including in China. Another salvo was fired this week when the *Australian's* front page conveyed a warning from the

International Monetary Fund (IMF).

The newspaper reported that Ray Brooks, the head of the annual IMF staff mission to Australia, had called for bigger budget surpluses than planned by the government, in case of a faltering in China's growth. The IMF is reportedly urging the federal Treasury to model the damage that would be done to the government's budgets from a 30 percent slump in Australia's commodity export prices.

Brooks called for “more reform” to sharpen work incentives—a euphemism for cutting welfare entitlements and lowering taxes on business and high income earners. He added that the pressures of the two-speed economy would require “some difficult political decisions” over how to make up lost revenues. One option canvassed was to extend the 10 percent Goods and Services Tax to excluded areas, such as food, which would hit the poorest layer of the population hardest. Brooks also warned that higher interest rates would have to be imposed if the mining boom lasted.

Any rate increases would add to the dual impact of rising prices and falling employment affecting most working people, and further fuel recessionary tendencies. Other data showed that vehicle sales dropped by 1.7 percent in the past year, and new home approvals decreased by 3.5 percent in June, following a 6.5 percent fall the previous month. The AIG-PwC manufacturing index fell 9.5 points to 43.4 in July, below the 50-point mark indicating contraction, and a quarterly Dun and Bradstreet business survey found that profit and employment expectations had fallen into negative territory for the first time in two years.

Far from being shielded from the ongoing fallout from the global financial crisis, as government and media representatives have claimed for the past three years, Australian capitalism is highly vulnerable to the worldwide turmoil, not least because of its dependence on raw materials exports to China and other Asian markets, all of which, in turn, rely heavily on sales to Europe and the United States.



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