Australia’s central bank cuts growth forecast amid global turmoil

Mike Head
7 November 2011

The Reserve Bank of Australia (RBA) delivered a shock to the Gillard government last Friday when it sharply reduced its economic growth forecasts. Warning that Europe may plunge into recession and drag the world with it, the central bank said it expected the Australian economy to grow by only 3.25 percent this financial year and next.

These predictions fall short of the 3.75 percent and 4 percent forecasts for the current and following year made by the bank just three months ago in its August review. Slower growth will undermine government revenues, forcing it to intensify its austerity measures in order to meet its pledge to the financial markets to eliminate the current $50 billion deficit by next year.

Earlier last week, the RBA cut official interest rates by 0.25 percentage points to 4.5 percent. It was the first movement in rates for a year and the first reduction since the global financial crash of 2008-09.

While the cut was presented by the media and Treasurer Wayne Swan as “good news” for homebuyers and the national economy, it indicated growing anxiety in the financial elite over the prospect of a deeper worldwide crisis, as well as signs of domestic slump.

As the *Australian Financial Review* noted, the last time the RBA shifted direction on interest rates was in September 2008, when a similar 25 basis points cut was explained as a minor adjustment triggered by concerns in global financial markets. Just two weeks later, the US investment bank Lehman Brothers collapsed, forcing the RBA to slash rates by 4.25 percentage points within eight months.

Announcing last week’s cut, RBA Governor Glenn Stevens said the bank was merely returning to a “more neutral stance of monetary policy.” Yet he referred to disturbing trends in the global and domestic economy, albeit in customarily oblique language. Stevens spoke of slowing growth in China, “economic weakness” in Europe, “spare capacity” in the United States, declining commodity prices and “cautious behaviour” by Australian households.

Business Spectator columnist Stephen Bartholomeusz was more frank. He summed up the RBA’s concerns as follows: “Households remain nervous and defensive, retail spending has been heavily curtailed, demand for credit from both households and businesses has been very subdued, house prices are still falling, along with new home sales, unemployment has been edging up, the dollar remains at historically high levels and, all in all, the only real signs of life in the economy have been in the resources sector…

“Offshore, the US economy remains weak and Europe remains perched on the brink of crisis, which has been the case throughout the year. With the ink barely dry on last week’s European response to the sovereign debt crisis and the threat it poses to European banks that deal is, thanks to the Greeks, already in trouble.”

As these comments reveal, the global turmoil, centred in the US and Europe, entirely overshadows the economic situation in Australia, despite the continual claims of the Gillard government that the country is sheltered by the mining boom, much of it based on exports particularly to China.

In fact, the commodities boom, which has benefited only the mining conglomerates and finance houses, is already starting to wane. This is largely because of declining production in China, which depends heavily on Europe and America as export markets.

October’s fall of 3.9 percent in the RBA’s commodity price index was the biggest since 2008-09. Coking coal and iron ore prices were the largest contributors, reflecting a contraction in Chinese steel output by 2 million tonnes to 56.7 million tonnes in September.

During the past three months, the iron ore price has dropped by 34 percent, while coking coal has fallen 21 percent and most base metals are down by between 10 and 20 percent. The RBA commented that prices had apparently peaked and then fallen “a little faster than earlier expected.”

One of the first casualties was OneSteel, which operates a steel mill in Whyalla, South Australia. Its shares dropped last Wednesday to a 10-year low—down nearly 18 percent to less than $1—after a poor outlook for the only profitable part of its business, nearby iron ore mines. OneSteel blamed falls

© World Socialist Web Site

in the iron ore price and the high value of the Australian dollar, which remains inflated by the super-profits being made by the major mining companies.

In a sharp sign of domestic slump, building approvals plunged nearly 14 percent in September, according to the Australian Bureau of Statistics. During the year to September, building approvals were down 12 percent. Housing prices are also falling. Over the nine months to end September, national dwelling values were down by 3.6 percent.

The number of company insolvencies, which peaked at 10,005 in 2008-09, has started to climb back up, from 9,281 in 2009-10 to 9,829 in 2010-11, according to the Australian Securities and Investment Commission. Despite the narrowly-based mining bonanza, the biggest rises were in the main resource export states—an increase of 134 percent in Western Australia since 2007-08 and 24.5 percent in Queensland, mainly in tourism and property development businesses.

Activity in the services sector, the country's biggest employer, dropped in October as sales weakened and new orders fell. The Australian Industry Group/Commonwealth Bank Australian Performance of Services Index (PSI) fell 1.5 points to 48.8 points in October. A reading below 50 indicates contraction.

Finance industry commentators warned that the RBA's rate cut would not be enough to restore confidence. Macquarie Securities analyst Brian Redican told the *Australian Financial Review* that the official unemployment rate, currently 5.2 percent, could reach 6 percent by mid-2012. This would mean tens of thousands more job losses, on top of those already imposed by Qantas, BlueScope Steel, OneSteel and Westpac bank, as well as the federal and state governments via spending cutbacks and restructuring measures.

Westpac CEO Gail Kelly added that the unresolved debt crisis in Europe was putting upward pressure on bank funding costs. The four major Australian banks depend on overseas sources for 40 percent of their funds, making them highly vulnerable to a global credit crunch, as they were in 2008 before they were propped up by guarantees from the Labor government.

Kelly unveiled a record $6.3 billion cash profit for 2010-11, a year during which Westpac eliminated nearly 800 jobs. Kelly foreshadowed a further two-year restructuring program, but refused to specify the number of jobs that would be axed or outsourced.

Another bank, ANZ, announced a $5.6 billion cash profit, a 12 percent rise on the previous year, despite reporting a deterioration in trading conditions over the second six months due to the weaker global economic situation. Between them, the four big banks recorded cash profits of $24.4 billion, up 12 percent from $21.7 billion a year ago.

The only beneficiaries of the financial crisis that erupted in 2008 have been those responsible for the breakdown—the banking and financial aristocracy. Their profits have been extracted at the expense of working people, who are facing rising levels of financial stress. Mortgage delinquencies have increased sharply in the past 12 months (see: http://www.wsws.org/articles/2011/oct2011/hous-o21.shtml).

The worsening economic situation is driving demands by the corporate elite for an intensified offensive against jobs, wages and working conditions, as signalled by last week's unprecedented grounding of the entire Qantas fleet to enforce the airline's wholesale restructuring to match its low-cost global rivals.

The escalation of this assault was spelled out in a blunt editorial in the *Australian Financial Review* last Wednesday. "The biggest industrial dispute in a decade now being played out at Qantas highlights the very real danger of unrealistic wage expectations rekindling inflation at a time when Australia's productivity performance is woeful," the editorial insisted. "Companies and their workforces need to be weaned off their reliance on easy money and confront the structural changes required to ensure Australia's competitiveness in an increasingly globalised world economy."

As in Europe and America, and internationally, the working class in Australia is being told that it must pay for the economic meltdown, even as the downturn deepens, throwing millions of households into greater financial hardship.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site