Australia: GDP growth obscures economic contradictions

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Last week's economic data showing that Australia's gross domestic product (GDP) grew by 4.3 percent over the previous 12 months was cause for national celebration, according to the federal Labor government.

Treasurer Wayne Swan told reporters" "That's a big day for the economy. It's a big day for our country and it's a big day for the government. Let's have a bit of pride in these figures … so that we can continue to face the global uncertainty from a position of strength." The superficially positive news was not confined to GDP. New private business investment grew by 5.5 percent in the last quarter, marking a 20 percent increase over the last year. The leading survey of job advertisements recorded another strong monthly increase in the number of job ads.

In truth, these few upbeat headline figures are evidence not of economic health, but of the contradictions wracking the Australian economy. The mining sector is booming, but most other areas languish. Mining investment accounts for nearly 8 percent of GDP, but the sector employs less than 2 percent of the workforce. Apparently buoyant consumer demand (up 5 percent over the previous 12 months) is coupled with the lowest growth in home lending since the government started collecting those statistics.

The contradiction is also geographical. One third of the population—those residing in the mining states of Western Australia and Queensland and the Northern Territory—contributed 75 percent of annual demand growth. The eastern states, in comparison, are dominated by industries that are stagnant or in decline. In other words, Australia's skewed and unstable economic growth is not the product of government policy but rather is wholly dependent on global demand, especially from China, for its minerals. A deterioration in the global financial system, already hit by the worsening European banking crisis, would result in falling growth and a reduction in demand for minerals. Moreover, despite government claims that Australian banks are some of the strongest in the world, a global financial crisis would result in an immediate drying-up of domestic credit. In other words, Australia's economy is at best "one quarter well" and very precariously balanced.

To some extent, what permits the Labor government to celebrate Australian economic success is the fraud involved in its official employment statistics. According to the Australian Bureau of Statistics, the unemployment rate was 5.2 percent in May, supported by an increase of 46,000 full-time jobs. That increase was offset by a 7,200 reduction in part-time jobs.

However, the ABS defines a person as employed even if they only work one hour per month, meaning that the official statistics hide epidemic rates of underemployment. According to a different measure, the Roy Morgan employment survey, 17.2 percent of the workforce (approximately 2.1 million people) were in May either unemployed (9 percent) or working part-time and looking for more work (8.2 percent), figures comparable to Europe. (The appropriateness of including the underemployed in the unemployment statistics is beyond doubt when one considers that, especially for those living in Australia's cities, an average part-time wage is unlikely to meet daily living costs.) These Roy Morgan measures are lower than in the previous month, but only because 94,000 people left the workforce. Many perceive their employment prospects as so dim that they have abandoned the search for work.

According to Roy Morgan, the change in the full-time job situation in April was not an increase of 46,000 but a decline of 168,000. Far from there being a reduction in the number of part-time jobs as the ABS claimed, Roy Morgan estimated an increase of 226,000. If so, the number of people now employed in Australia on a part-time basis (3,859,000) is higher than at any time in history. The scale of underemployment (those without work plus those looking for more) is the highest ever recorded by the Roy Morgan survey—approximately 1.1 million people.

Such figures indicate that Australian economy is already in recession, at least in the eastern states. Other figures support this conclusion. The housing sector, the effective driver of growth since 2000, is now the weakest part of the economy, with demand in that sector shrinking 6.2 percent over the past 12 months and an unprecedented 2.1 percent in the past three months. Housing credit grew only 5.3 percent in the 12 months to April, the lowest annual growth since the ABS started collecting those statistics in 1977. In the "boom" years of the 2000s, annual housing credit growth peaked above 20 percent.

According to the leading NAB index, business confidence went into sharp decline in May, despite a sizeable (0.5 percent) interest rate cut in April. The index included significant declines in business confidence in the mining and construction sectors. Overall, business confidence is the lowest in three years, with respondents citing concerns about the Eurozone crisis and declining commodity prices (i.e., Asian demand for coal and iron ore).

Last month, Jac Nasser, the chairman of BHP Billiton, the world second largest mining company, indicated that it was abandoning its planned $80 billion in mining investment. Nasser in part blamed the Labor government for an alleged refusal to prevent industrial disputes, but this politically-calculated claim is only a sideshow compared to the real issue: a rapid fall in Chinese demand for minerals, especially iron. "The tailwind of high commodity prices has contributed to record growth in the sector. Now we have a period where those tailwinds are moderating and we expect further easing over time," said Mr Nasser.

Following on from Nasser's comments, BHP's CEO Marius Kloppers told reporters that over-supply in the Chinese steel industry (i.e., declining or stagnant demand) was a "major challenge" to the Australian mining sector. According to the coal industry, more than $30 billion in investment is being revised, in large part because of a 25 percent reduction in the coal price during the first half of 2012. Once again, the explanation is slowing demand in China. Coal is Australia's largest single export.

These global demand shifts are inextricably linked to the Eurozone crisis and to recessionary conditions in the US. Historic levels of unemployment, financial volatility and stagnant consumer demand in both the US and Europe directly hit demand for Chinese exports, which in turn affects Australia.

Such declines place the GDP figures in a more sobering light. According to the *Australian Financial Review*, when Australia's terms of trade (the prices paid for its exports) are factored in, the resulting real GDP figure is less than 2 percent on an annualised basis and will not rise above 1.5 percent over the next 12 months. The effect of the declining terms of trade, combined with a high dollar, is a rapid slide in per capita income, which in turn reduces profit and increases the cost of borrowing and investment.

Under these conditions, the demands from big business for lower wages, cuts to welfare and further lowering of workers' living conditions will become more intense. The *Australian Financial Review* has noted that "with the decline in the terms of trade set to continue, the days of easy per capita income growth are over. Australia will have to look to higher labour force participation rates and higher productivity growth if it wants to recapture the growth in living standards of the last decade."

The real intent and meaning of such comments could hardly be more transparent. The aim is not higher living standards—these must be sacrificed in the drive for international competitiveness—but higher profits at the expense of the working class.