

Forecasters warn of end to Australia's mining boom

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26 July 2012

Two prominent economic forecasting firms warned this week that Australia's mining boom is showing signs of ending, because of falling commodity prices, primarily driven by slowing rates of growth in China, India and other major resource markets.

The predictions indicate that wider sections of the economy could be dragged into the slump already gripping major industries, notably construction, manufacturing, retail and tourism. Tax revenues would drop, requiring the government to impose harsher spending cuts in order to meet its commitment to the financial markets to deliver budget surpluses from this financial year onward.

BIS Shrapnel said there was a 25 percent chance that commodity prices would plummet so far that Australia's economy would enter a recession. Spokesman Tim Hampton said future investment in mining hinged on commodity prices remaining steady, and he did not expect growth beyond 2014. Hampton said that even if Chinese demand did not collapse, the global supply of commodities would be so great by the middle to end of this decade that new projects would not be worthwhile.

BIS Shrapnel referred to the recession affecting many non-mining sectors. "Large parts of the economy remain depressed," Hampton said. "Those with economic power are doing well—the banks, the major supermarkets, utilities," he added, "but SME [small to medium sized] businesses with little economic power and those that rely on servicing non-mining investment are largely languishing, with weak growth and profitability."

Hampton said Australia was "relatively sheltered" from the European debt crisis, but it remained a major risk. "We expect the European situation will get worse before it gets better, and will drag on for many years," he said. "Irrespective of how their significant issues are resolved

(e.g., euro break-up, further debt write-offs), the main channels of influence for Australia will be through reduced consumer and business confidence, lower commodity prices, and tighter funding conditions."

Deloitte Access Economics' business quarterly outlook warned that a "soggy" Australian share market, a 7 percent drop in housing prices in the past 18 months, a China slowdown and a drop in coal and iron ore prices would all cut the government's tax revenues. It said the mining investment boom would slow more sharply than expected. "Mining companies are making it clear the current spike in investment is due to decisions taken a while back, whereas we are getting few new mining mega-projects across the line," it stated.

Access Economics director Chris Richardson said Treasurer Wayne Swan would face difficult decisions when delivering the budget update in November. "If it shows this year's forecast \$1.5 billion budget surplus is no longer there, he will have to decide whether to cut again in order to continue to forecast a surplus. The risk is the cuts will hurt.

"The window dressing in the May budget was designed not to hurt. One of the tricks was to bring spending forward from 2012-13 to 2011-12. It was a popular sleight of hand but it can't be done again. This time he would have to consider delaying payments, and that would be unpopular."

Signs have emerged that the mining boom is faltering. When mining giants BHP Billiton and Rio Tinto report their 2011-12 financial year results later this month, they are expected to post profit declines of 19 and 24 percent respectively, after a 16 percent fall in global commodity prices over the year. Iron ore prices have dropped more precipitously—from a peak of \$US180 a tonne in 2011 to as low as \$125—while benchmark prices for both thermal and coking coal have slumped 30 percent in recent months.

Rio Tinto last week announced redundancies at a central Queensland coal mine, and warned that expansion at another was unlikely to proceed. Two months ago, BHP confirmed it would not spend \$20 billion on expansion, as previously planned. Following this, Rio and Fortescue Metals announced pauses in their iron ore expansion plans.

There were further indicators this week of the recessionary conditions in key non-mining sectors. According to official statistics, at least two construction companies a day are going bankrupt as demand falls and banks curtail funding. Since January 1, more than 363 companies in the building industry have collapsed, more than 200 of them from New South Wales and 95 from Victoria. The trend is accelerating, with 30 companies failing in March, 33 in April, 51 in May, 63 in June and 40 in the first 10 days of July.

An Australian Industry Group-Housing Industry Association Performance of Construction Index for June also showed that building work fell for the 25th straight month. The index registered 34.8, well below the 50-point level that signifies contraction. Apartment construction was the weakest sector—down 4.9 points to 21.8, indicating a gathering pace of decline. House building was shrinking at 30.7, commercial construction was at 26.6, and the engineering sector was at 39.9.

Amid these reports, Reserve Bank Governor Glenn Stevens had made his second speech within six weeks, endeavouring to talk up the country's economic prospects after the central bank had cut interest rates by 125 basis points since the end of last year in a bid to stimulate household spending.

Stevens' speech was given prominence in the media, with reassuring headlines such as "We'll beat euro, China crises." In fact, Stevens betrayed considerable nervousness about the downturn in Australia, as well as the economy's vulnerability to the deepening crisis in Europe.

The central bank chief said sceptics had focussed on the economy's exposure to China, its over-priced housing market and the dependence of banks on international finance markets. He blamed these fears for helping to depress falling consumer spending, complaining that Australians seemed "grimly determined to see our glass as half empty."

The fears, he insisted, were exaggerated, essentially

because he was confident that the Chinese regime would successfully manage the country's slowdown, and because Australia had avoided a crash during the 2008-09 global financial crisis, and could therefore withstand any future shock. Even so, Stevens was decidedly cautious, acknowledging that some of the concerns may be valid. "We should never, ever, assume that 'it couldn't happen here'," he said.

"If the thing that goes wrong is a major financial event emanating from Europe, the most damaging potential transmission channel would be if there were a complete retreat from risk, capital market closure and funding shortfalls for financial institutions," Stevens said. "Let me emphasise, importantly, that this is not occurring at present and if it did occur it would be a problem for a great many countries, not just Australia."

Treasurer Wayne Swan hailed Stevens' speech as a "body blow to the doomsayers and scaremongers determined to talk our economy down." While seeking to paint a rosy picture of the economy, however, the government contradicted itself by also rushing to reassure business and the financial markets that it will make whatever cuts to social spending are needed to deliver budget surpluses despite deteriorating tax intakes.

Seeking to bolster support in business circles for her increasingly shaky leadership, Prime Minister Julia Gillard responded to the Access Economics report by declaring: "The budget will return to surplus" (see: "Australian PM pledges further spending cuts as Rudd prepares challenge").



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