# Australian central bank cuts interest rates amid signs of economic slump

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The Reserve Bank of Australia (RBA) yesterday cut its official cash rate by 25 basis points, or 0.25 percentage points, to 3 percent, the lowest rate since the central bank started setting rates in 1990. The new rate matches what Treasurer Wayne Swan called the "emergency" setting in April 2009 amid the global financial crisis.

The rate cut reflects the deepening impact of the international economic breakdown, which is eroding mining prices, exports and investment, exposing the Labor government's claims that Australia is relatively immune from the global turmoil.

The RBA has now lowered its key cash rate seven times, by a total of 175 basis points, since November 2011, without any alleviation of the recessionary conditions prevailing in the non-mining areas of the Australian economy that are spreading to the mining industry. So acute is the downturn that many economists are predicting further rate cuts in 2013, perhaps to as low as 2 percent.

In the bank's official statement, RBA governor Glenn Stevens warned: "Risks to the outlook are still seen to be on the downside, largely as a result of the situation in Europe, though the uncertainty over the course of US fiscal policy is also weighing on sentiment at present." Stevens asserted that growth in China, Australian capitalism's largest single export market, had "stabilised" in recent months, yet "Europe is likely to remain a source of instability for some time."

These observations underscore the vulnerability of Australian capitalism. The economy remains reliant on mineral sales, particularly to China and other Asian markets—which depend in turn on exports to Europe and the US. Australian-based banks and corporations also borrow heavily on world money markets to finance their operations.

Despite mounting evidence of contraction throughout much of the Australian economy, Stevens sought to reassure the markets that "growth has been running close to trend." However, he openly voiced fears about future prospects with the end of the mining boom, warning that "the peak in resource investment is approaching." Recent months have already seen major mining investment plans shelved or mothballed.

Stevens also expressed frustration that the Australian dollar remained highly priced on world exchange markets, despite a 15 percent plunge this year in the country's terms of trade (export prices compared to import prices). One of the reasons for the inflated value of the currency is that Australia's interest rates are still among the highest in the world. Countries such as the United States and Britain, where rates are near zero, have also resorted to other steps to stimulate their economies such as "quantitative easing"—literally the printing of money.

Dismissing the implications of the rate cut, Treasurer Wayne Swan described it as an "early Christmas present that hard-working Aussies deserve" and claimed it was the result of the government's good economic management. He sought to ridicule commentators who called the 3 percent cash rate an "emergency" setting—citing Swan's own words from 2009. "Anybody who thinks that rates are at their levels now for the same reason they were at lows during the global financial crisis simply can't be taken seriously," he said.

The reality is that the global economic crisis is worsening, and its full impact is now starting to fully hit home in Australia. A raft of recent economic data points to a deep slump in 2013.

November marked the eighth consecutive month of

decline in the number of job ads online and in newspapers, with the total now 17 percent lower than a year ago, and falls in the previous mining boom states of Western Australia and Queensland. Economists now expect the official jobless rate to rise from 5.4 percent in October to near 6 percent by the middle of next year. That would push the number of unemployed workers to over 700,000.

Manufacturing activity fell last month for the ninth time in a row. That decline was highlighted when the parent company of the iconic Rosella tomato sauce maker went into receivership this week, threatening the jobs of about 275 permanent and casual workers. Other recent job losses include 80 at MMG's zinc, copper and precious metals mine in Western Australia and 207 at Carter Holt Harvey's timber mills in South Australia.

Wage and salary income fell 0.2 percent in the September quarter, reflecting widespread job losses and cuts to wages, as well as a decline in overall hours worked. It was the first such fall since early 2009, following the financial crash. The impact of the cut to workers' income was seen in retail sales, which stagnated in the three months to October. Building approvals also dropped by a seasonally adjusted 7.6 percent during October, deflating hopes of a construction industry revival.

Company profits slumped for the fourth straight month, and fell by 2.9 percent for the September quarter. Profits have now dropped 13 percent over the past 12 months. Significantly, the sharpest reversal has occurred in mining profits, which fell 12.2 percent in the quarter, down 30 percent since a year earlier, driven by a drop in commodity prices.

"Business conditions are as tough as in the global financial crisis," Commsec chief economist Craig James told the *Australian*. Goldman Sachs Australia chief economist Tim Toohey told the *Australian Financial Review*: "At the moment it looks like the non-mining economy is expanding at less than 1 percent per annum, and that's where 85 percent of the economy is and 97 percent of the work."

The downturn further undermines the government's budget forecasts, and requires even greater spending cuts to be made to produce a budget surplus this financial year, as promised to the financial markets. Labor's mid-year budget update in October based the return to surplus on an 8.2 percent annual jump in receipts from personal income tax, and a 9.4 percent rise in company tax, neither of which is likely to occur.

Treasurer Swan nonetheless reiterated the government's pledge to eliminate the budget deficit generated in 2008-10, when Labor's stimulus packages propped up the banks and major corporations. Even before the latest data, the government had promised a budget turnaround from deficit to surplus of around $50 billion, equal to about 3 percent of gross domestic product. This historic reduction in spending on social programs and infrastructure will more than offset any stimulatory effect of the interest rate cuts.

The turn in the economic situation has intensified calls by the corporate elite for even more aggressive action by the Labor government to slash labour costs and drive up productivity, at the expense of the jobs, wages and conditions of the working class. "Here comes the correction," proclaimed yesterday's editorial in the *Australian Financial Review*. Denouncing Australia's "inflated cost base," it warned that Australians had yet to experience the "mass deleveraging forced onto the European and US economies."

The newspaper voiced mounting dissatisfaction in the business establishment that neither the Labor government nor the Liberal-National opposition had committed to the savage austerity and cost-cutting measures needed to match the cuts to living standards being imposed in Europe and America. It concluded: "[T]he omens suggest we have mostly delayed the adjustment that other comparable economies have made. There are few signs that our indulgent political debate understands this."