

Australian national income falls as global downturn deepens

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Australia's national income dropped by 0.4 percent in the September quarter—another indicator of the intensifying slump that has hit most of the economy, compounded by a fall in mining commodity prices. It was the first reversal since early 2009, in the opening stages of the global economic breakdown, and only the second decline since country's last recession, in 1991.

For all the Labor government's claims that the Australian economy is uniquely sheltered from the international turmoil, the latest data reflects the renewed worldwide downturn, driven by the European-wide contraction, Japan's slide into recession and signs of reversal in the US.

Real gross domestic product (GDP), which measures the amount of goods and services produced in the economy, grew by an anaemic 0.5 percent in the three months ended September 30. This represents an annualised rate of 2 percent, well below the government's forecast, just over a month ago, of 3 percent growth.

Real gross domestic income—the purchasing power of what the economy produces—fell 0.4 percent—an indication of the contraction hitting ordinary working people. That drop chiefly resulted from lower prices for Australia's main exports, particularly iron ore and coal. Treasurer Wayne Swan blamed the income fall on a “pretty savage” slump in the terms of trade.

Former Treasury economist Geoff Carmody told the *Australian Financial Review* the figures confirmed the economy was in recession during the first nine months of 2012, based on net income per person, which had fallen by 1.8 percent over the year to September 30.

These results mark the end of a short-lived upswing in 2010-11, which flowed from the Labor government's stimulus packages to rescue the banks and big business, and, even more so, the massive spending undertaken by the Chinese regime to avert a meltdown in its economy. Nominal GDP growth has slumped to an annual pace of 1.9 percent. Two years ago, it briefly surged to 10.3 percent because commodity prices soared, largely as a result of China's huge but unsustainable stimulus programs.

The latest economic data shows that manufacturing output fell for the ninth month in a row, construction activity contracted for the 20th consecutive month, and the trade deficit for October expanded 47 percent to a seasonally adjusted \$2.088 billion, the worst result since 2008. It was the tenth consecutive monthly trade deficit, underscoring the impact of lower export prices.

Leading economists are warning that worse lies ahead, with confirmed mining investment falling by \$6 billion in the past three months. For the government to meet its pledge to have a \$1.1 billion surplus for 2012-13, GDP growth would have to bounce back to 0.8 percent per quarter over the next nine months. “None of us believes the government is going to meet this surplus fantasy,” JPMorgan economist Stephen Walters told the *Australian Financial Review*.

A report by the Australian Business Economists executive committee said government income would be hit by sliding company tax revenue, resulting in a budget deficit of \$8 billion. Moreover, the slump would deepen in 2013-14. Growth in business investment, mostly in mining—previously a key driver of GDP expansion—was expected to slip from 16 percent this

year to 9.3 percent next year and then close to zero (0.7 percent) in 2014.

In a seemingly contradictory development, official unemployment fell from 5.4 percent to 5.2 percent last month, a result Workplace Relations Minister Bill Shorten hailed as “good Christmas news for hard-working Australians”. However, the fall came from an 18,000 rise in the number of part-time positions, offsetting a 4,200 fall in full-time jobs.

Moreover, the jobless rate would have risen, except for people dropping out of the labour force altogether. With the number of job ads having fallen 17 percent in the past year, it has never been more difficult to find a job. In particular, the jobless rate among teenage girls, aged 15 to 19, dropped from 16 percent to 13 percent, indicating that many gave up searching for work.

The official “participation rate”—the share of the working-age population either working or looking for employment, has been falling for two years, most recently coming down from 65.3 percent in September to 65.1 percent last month. This indicates that many retrenched workers have also dropped out of the workforce. Tens of thousands of jobs have been destroyed over the past year, both in basic industry and throughout the federal and state public sectors.

The barrage of job losses continued this week, with the cuts including Optus (900 jobs), General Motors (170 jobs) and Westpac (no numbers specified). The spread of the layoffs to the mining industry was highlighted by those announced by Santos (100 jobs), Boart Longyer (300 jobs) and Boral (90 jobs). The Australian Coal Association said more than 7,500 jobs had been lost in the coal industry this year.

This week’s decision by the Reserve Bank of Australia to cut official interest rates by 0.25 percentage points to 3 percent—the “emergency” level reached in 2009—will have no more effect in offsetting these globally-driven processes than the previous six such rate cuts over the past year.

Billions of dollars in federal and state government spending cuts, with the Gillard government imposing austerity measures across the board, are negating the impact of the interest rate reductions. Facing major revenue declines, the states are also under intense

pressure from the credit ratings agencies to deepen their spending cuts. Victorian Premier Ted Baillieu said yesterday that all states were “challenged financially”, with an aggregate operating annual deficit of between \$8 billion and \$9 billion.

This week, the Labor government began backing away from its pledge to deliver a 2012-13 budget surplus. Prime Minister Julia Gillard yesterday admitted there were “forces at work” against growth. She claimed the government was “still determined to deliver the surplus”, but said this was still possible because the government’s October economic update had shown “trend growth”. This week’s GDP results are way short of the so-called trend rate of 3 percent.

Because of falling profits, sections of the financial and corporate elite are urging the government to abandon its surplus vow. “The spending cuts are making the task of the Reserve Bank to maintain growth more difficult and probably does mean that more interest rate easing will be necessary,” Westpac bank chief economist Bill Evans told the *Australian* this week. However, other voices, including the *Australian Financial Review*, are insisting that the government stick to its pledge, in order to tackle the “structural deficit” produced by welfare entitlements.

Above all, big business is stepping up its demands for the Labor government to drive down workers’ wages and conditions in order to slash labour costs, amend its workplace relations laws to further suppress industrial action and cut corporate taxation, so that Australian-based corporations can match their international rivals. Today’s *Australian Financial Review* editorial declared: “Canberra should now conduct a full-blooded assault on government waste, get serious about genuine tax reform and wind back its job market reregulation that is holding back productivity.”



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