Sharp economic reversal in Australian mining states

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Official statistics released last week showed that the Australian economy grew by only 0.6 percent in the March quarter, slowing the annualised growth rate to 2.5 percent—well below the Treasury forecast of a 3 percent growth rate this year.

The gross domestic product (GDP) data published by the Australian Bureau of Statistics points to recessionary conditions taking hold as the two-decade-old mining boom breaks up. The mining states and territories of Western Australia, Northern Territory and South Australia led the decline in growth, reflecting falling mining investment and employment.

The downturn stems from the worsening international situation. Slowing output in China, due to its declining markets in Europe and America, has seen lower demand for Australian raw materials. This demand had previously masked the full impact of the slump in other key sectors such as manufacturing, construction and retail.

The Northern Territory economy contracted by 10.2 percent, in seasonally adjusted terms, after rising by almost as much in the previous quarter. Western Australia's economy shrank by 3.9 percent, its second consecutive quarter of contraction. South Australia's output fell by 0.3 percent, its third consecutive quarterly decline, while the small state of Tasmania suffered a 1.1 percent fall, its sixth quarter of contraction in a row.

Traditionally, economists regard two consecutive quarterly declines as the mark of a recession, so by this measure, substantial areas of Australia are already in recession. Output—or state final demand—grew only in Victoria (0.8 percent), Queensland (0.6 percent) and New South Wales (0.4 percent).

Overall, Australian exports grew by 1 percent in the first quarter of 2013, but household spending rose by only 0.3 percent, a sign of growing financial stress in the working class. There was a sharp drop in government investment in the quarter, which is an indication of the effect of the austerity spending cuts being spearheaded by the Gillard government. Average wages also rose by an annualised rate of only 2.7 percent, barely keeping pace with inflation, placing more pressure on workers' living standards.

Bank of America Merrill Lynch Australia chief economist Saul Eslake told the Australian Broadcasting Corporation (ABC) that the weakness in the resource-intensive sectors was concerning. Pointing out that Western Australia's unemployment rate had risen by 1.7 percentage points since last July, he commented: "So some people might interpret that as saying that the state which has been the engine room of Australia's growth over the last three-and-a-half years has all of a sudden fallen into something that looks a bit like a recession."

International markets responded by sending the Australian dollar down to 94.34 US cents last Thursday, its lowest level since September 2010. Since the end of April, the Australian dollar has fallen substantially against most major currencies, reflecting a falling level of trust by investors that the Australian economy will provide the returns it previously did. The Australian stock market continued to drop, having now lost more than 9 percent, or $135 billion, since mid-May.

The Australian government moved into damage control after the GDP announcement, trying to dispel fears of a serious downturn. Treasurer Wayne Swan said the poor figures were the result of "lumpiness" and a "devil's plateau" in the mining sector, "not a cliff as it has been portrayed in some of the public discussion." His reassurances, however, were undermined by another official report.

The Australian Bureau of Resources and Energy Economics (ABARE) last month predicted a two-thirds fall in mining investment over the next five years, shattering the government's claims, regularly invoked until recently, of a "massive pipeline" of mining investment still to come. ABARE estimated that the peak in investment passed last October, when $268.4 billion was committed to projects, and that the total would drop to $70 billion by the end of 2017.

Over the past year, 18 projects worth a total of $150 billion have been abandoned or deferred, including BHP Billiton's $30 billion Olympic Dam development and Woodside's $36 billion Browse liquefied natural gas project. ABARE noted that 14 fewer resources projects were under development at the end of April, compared to six months earlier. Exploration spending by mining companies also declined by about a quarter between June and December.

The gathering economic slump will further undermine the government's tax revenue forecasts, intensifying the pressure by the financial markets for deeper cuts to public spending. All the calculations in last month's federal budget were based on assumptions of annual growth of nominal GDP of 5 percent for the next four years. This has been rejected as completely unrealistic by economic commentators. With revenue predictions falling short, whichever party forms the next government will bring forward even more severe cuts to welfare and other social programs.

The latest figures have only strengthened the demands from business for a further assault on workers' conditions and wages. Former Treasury secretary Ken Henry told the Australian Chamber of Commerce last week that the end of the mining boom meant "there is a massive productivity agenda that needs to be prosecuted."

The government also argued that the mining downturn would be offset by growth in other areas of the economy, such as housing, property development and agriculture, but news from these sectors brought more gloom.

The latest Performance of Construction Index published by the Australian Industry Group and Housing Industry Association reported the 36th consecutive month of decline in the construction industry. The May index result was 35.3, well below the 50 mark that indicates contraction. The decline was driven by the third straight month of falling demand for new housing, despite the Reserve Bank maintaining official interest rates at a 50-year low of 2.75 percent.

This week also saw further job losses in retail and manufacturing. Major retailer Target and food production company Simplot both announced plans to axe hundreds of jobs and close down some operations in New South Wales, Victoria and Tasmania. The Australian Securities and Investments Commission said April had the highest monthly tally of companies going into administration since recording began in 1999. It reported that 941 companies were declared bankrupt in April, bringing the total this year to 3,450.

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