

# New Australian government faces sharp economic downturn

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Less than a month after taking office, the Abbott government confronts a rapid erosion in the prospects of Australian capitalism, driven by a structural crisis of the Chinese economy, continuing stagnation in Europe and the United States, and intensifying global financial turmoil.

Falling growth rates, collapsing mining investment and an underlying rise in the unemployment rate are cutting budget revenues, placing the Liberal-National Coalition government under intense pressure from the financial markets and corporate elite to move more swiftly to slash social programs and drive down the wages and conditions of workers.

Under the previous six years of Labor government, the full impact of the global capitalist breakdown that erupted in 2008 was cushioned for a period by a combination of stimulus packages in China and Australia, a revival of mining exports to China and other Asian markets, and a resources investment boom.

Over the past 18 months, these processes have begun to unravel, as China's growth slowed, commodity prices fell and the investment tide turned, highlighted by major project cancellations by BHP Billiton and other resources giants.

Between 2003 and 2012, the global mining sector is estimated to have invested \$284 billion in new projects or mine expansions in Australia. In the first half of 2013, however, that inflow dropped dramatically, deducting about 0.5 percent from economic growth. In addition, during 2012–13, Australia's mineral and energy export earnings fell 8 percent to \$177 billion.

Two reports by the International Monetary Fund this week underscored Australia's exposure to what is emerging in China—the end of its 20-year period of fast growth, and the danger of a financial crash. Heavily dependent on recession-hit European and US markets,

China cannot continue to grow at the same pace, while the Beijing regime's pumping out of credit to boost domestic spending has created debt bubbles that threaten to burst.

According to the latest IMF World Outlook, a slowdown in Chinese growth from an average of 10 percent during the previous decade to an average of 7.5 percent over the coming decade would cut Australia's gross domestic product by more than 3 percent per year by 2025, primarily as a result of slower Chinese demand for coal, iron ore, and copper. Only Mongolia is more vulnerable—facing a 7 percent GDP impact.

A second report, the IMF's global financial stability report, warned of further “downside risks” from China: “a sudden credit squeeze could further decelerate economic activity and trigger serious asset-quality problems” unless Beijing urgently reined in credit growth, which expanded more than 22 percent in 2013. The IMF said these dangers were compounded by the shocks likely as the US Federal Reserve pulled back its “quantitative easing” program of pumping \$85 billion a month into the US financial system.

The Australian Bureau of Resources and Energy Economics (BREE) has warned that mining investment has peaked, in real terms, and would decline from 2014–15. “While there still remain several very large projects under construction, as these are completed over the next three to four years, there are few projects of equal value scheduled to offset the decline in mining capital expenditure,” it noted.

BREE reported that record low official interest rates of 2.5 percent had failed to spur capital investment to replace the gulf being left by the mining decline. In fact, capital expenditure in Australia was 2.3 percent lower, year-on-year, in the June quarter of 2013. The bureau predicted that Australia's GDP growth would

stagnate at 2.5 percent from 2014–15. That is well below the level of 3 percent regarded as necessary to halt rising unemployment, which saw mining jobs fall by nearly 16,000 in the year to June, on top of the destruction of thousands of manufacturing jobs.

After rising from 5.2 percent earlier this year, the latest official unemployment figures showed a decline from 5.8 to 5.6 percent during September, in seasonally adjusted terms, but that was largely because the workforce participation rate decreased 0.1 points to 64.9 percent, the lowest level since 2006. This indicates that growing numbers of people have given up looking for jobs. An estimated 100,000 people have left the workforce in the past three months, the biggest number since Australia's last official recession in 1992.

Aggregate monthly hours worked also decreased 6.4 million hours to 1,641.5 million hours. The share of the workforce either unemployed or working less hours than desired rose to 13.7 percent, the highest since 2002. All the indicators point to a worsening jobless crisis, with Treasury forecasting a 6.25 percent official rate by the middle of next year. That would mean 770,000 out of work and more than 1.5 million unemployed or underemployed.

Despite the record low interest rates, the Westpac-Melbourne Institute Index of Consumer Sentiment fell 2.1 percent in October, partly reversing an immediate post-election jump. The subindex tracking consumers' assessments of their finances relative to a year ago fell by 1.9 percent, a sign of increasing financial stress. A related index of unemployment expectations rose to 10.1 percent above the level in November 2011, reflecting heightened concerns about job prospects. There was a shock fall from 140 to 135 in the index of assessments of "whether now is a good time to buy a dwelling."

Likewise, dwelling approvals fell 4.7 percent in August after a 10.2 percent jump in July, denting efforts by sections of the media to talk up prospects of a housing-led recovery. Overall, construction activity declined in September, extending a three-and-a-half year contraction, even though house and apartment building rose for the first time for months, according to the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index. The protracted fall in construction industry employment continued, and in fact registered its

steepest pace of decline in the past three months.

Borrowing by businesses is continuing to stagnate, underscoring the impact of waves of industrial and retail closures, and lack of business confidence that conditions will improve. According to the latest data from the Reserve Bank of Australia, business credit increased by just 0.2 percent in August, after a 0.4 percent lift in July. Over the year, business credit barely rose, by 1.4 percent, which is a fall in real terms.

Public demand, which represents 22 percent of the economy, actually declined over the past year, contracting by some 2 percent in the year to June 2013. This reflects the record cuts in public spending already imposed by the Gillard and Rudd governments as they attempted to implement the dictates of the financial markets to eliminate the budget deficit.

Plummeting revenues in 2012–13—the equivalent of a \$40 billion drop from 2005–06, at the height of the mining boom, ultimately compelled the Labor government to defer its pledge to balance the budget. For 2013–14, another \$20 billion is expected to be wiped off revenues, producing a deeper budget black hole.

Business leaders and the corporate media are now ramping up their demands on the government to cut spending far further, radically lower business taxes and rewrite the workplace laws to clear the way for the wholesale cutting of wages and working conditions. David Uren, the *Australian's* economics editor declared on Thursday that Treasurer Joe Hockey was "getting a crash course on the global economy" at the IMF-G20 finance ministers' meetings in Washington this week. "Hockey should return from Washington with a much fuller appreciation of the challenges of his job and a sense that the post electoral glow of rising confidence levels may prove ephemeral," he wrote.



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