Australia: Investment figures highlight recessionary trends

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Anyone who went by reports in the so-called mainstream media of the speech last week by the deputy governor of the Reserve Bank of Australia, Philip Lowe, might well have concluded that the Australian economy was set for a new spurt of growth following the end of the mining boom.

According to a report in the Murdoch-owned newspaper the *Australian*, for example: "The economy is on track to transition away from reliance on the resources industry to power growth, a top central bank official has said.

This report based itself on remarks made by Lowe at the end of his speech in which he said that a lower value of the Australian dollar, an improvement in business confidence and lower interest rates "provide the basis for our outlook of a gradual lift in the non-mining economy over the next couple of years." But Lowe also warned that "none of this is locked in."

While his concluding remarks were somewhat upbeat, an examination of the body of Lowe's speech, and some of the statistics contained within it, point to the underlying shifts in the world and Australian economies that lie behind the worsening outlook.

Lowe's remarks mainly focused on investment levels—a key statistic because capital investment in new plant, equipment and factories as well as building and construction is the main driving force of expansion in the capitalist economy.

These figures underscored the reasons for the underlying recessionary trends both on a global scale and within Australia.

Lowe began his focus on investment by noting that: "Since 2008, the developed economies have been in an investment drought. Indeed, the four years from 2008 to 2012 saw the lowest level of investment, relative to GDP [gross domestic product], for many decades. For the world as a whole, investment has also been very low."

The sharp downturn after 2008 came on top of a persistent downward trend. In 1973 investment in the G7 group of major economies peaked at just below 23 percent of GDP, falling to around 19 percent in 2004. It rose slightly in the years before the global financial crisis then dropped steeply to around 17 percent.

Lowe pointed out that in some developed countries the level of investment has been barely enough to offset the depreciation in the existing capital stock.

In some parts of the world, the decline has been even more severe. Pouring cold water on the idea that a second-quarter 0.3 percent increase in the GDP of the Eurozone pointed to a "recovery", *Financial Time* s columnist Wolfgang Münchau recently noted that from 2007 to 2013, investment was down by 19 percent across the zone. Spain and Italy experienced the biggest falls of 38 and 27 percent respectively.

In his analysis of the Australian situation, Lowe pointed out that the investment pattern differed somewhat from the global trend. Real business investment recently peaked at more than 18 percent of GDP, its highest level in more than 50 years, largely because of the mining boom.

This situation, however, is changing rapidly with the economic forecaster BIS Shrapnel predicting that engineering construction work will fall by 7.6 percent in 2013-14 compared to a 5.4 percent decline it anticipated last May.

While the mining investment boom boosted the aggregate investment numbers, it hid the differences across the economy.

"Mining investment has been extraordinarily strong; last year it was equivalent to around 8 percent of GDP, which is much higher than any previous mining boom, at least for over a century."

But in the non-mining economy the picture was very different. Here investment has been "quite weak" with non-mining private business investment around 3 percentage points lower than the average for the period 2005-2008 and not much above the levels experienced during the last Australian recession in the early 1990s.

And if public investment were taken into account, then total non-mining investment as a share of GDP was below the levels recorded at that time.

"In this sense," he concluded, "the profile for non-mining investment in Australia is not dissimilar to the profile for overall investment in many of the developed countries."

The fall-off in investment is spread across the non-mining economy, with 16 of the non-mining industries recording levels below that for the years immediately preceding the global financial crisis. This had occurred despite lending rates being at record lows both for small and large businesses.

Among the hardest hit sectors are the manufacturing and tourism industries, both of which have been severely impacted by the inflated value of the Australian dollar. This is a direct result of the "quantitative easing" policies of the US Federal Reserve which is pumping money into the US and global economy at the rate of $85 trillion a month.

According to Lowe, the current rate of investment in these industries is at or below the depreciation of the existing capital stock. "The low level of investment in the manufacturing sector is particularly noteworthy, as manufacturing has traditionally accounted for around one-fifth of non-mining investment."

Lowe referred to the subdued level of business confidence and willingness to take risks. Beyond the specifically Australian factors at work, including the high level of the dollar and political turbulence during the last six years of a hung parliament, the legacy of the global financial crisis, including the problems in Europe and the conflicts over the US debt ceiling, was having a significant impact.

Falling consumer demand was also making its effects felt. Unlike previous years, growth in household consumption was no longer running ahead of growth in household income. The slowdown in retail spending had sent estimates of total investment in this sector to its lowest level as a share of GDP for many years.

He forecast that mining investment as a proportion of GDP was likely to decline by 3 percentage points or more in coming years, meaning that "other forms of spending will need to pick up."

But from Lowe's own survey of the state of the world and Australian economies, there is little or no prospect of that happening.