Australian economy heads for slump and deepening inequality

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Australia's latest national accounts, released this week, show an economy largely mired in recession, and facing a looming slump, with a widening gulf between the wealthy elite and the vast majority of the population.

The two-decade mining boom, largely based on exports to China, is starting to implode, producing a sharp drop in investment, on top of the announced closure of the entire car industry by 2017. Yet, the country's richest people are enjoying soaring share prices, profits, dividends and property prices.

Gross domestic product (GDP) grew 0.8 percent in the December quarter, because of higher export volumes and spending by better-off consumers, but unemployment continued to rise amid a flood of job cut announcements by corporate giants such as Toyota, GM, Ford and Qantas.

The Australian Bureau of Statistics said the GDP growth was almost exclusively driven by a 0.6 percentage contribution from net exports and a 0.5 percentage point contribution from consumer spending. Private business investment subtracted 0.5 percentage points, an early indication of a massive fall-off of investment, especially in mining. Machinery and equipment spending dropped almost 9 percent.

JP Morgan chief economist Stephen Walters pointed to the almost negative performance of the domestic economy. "Of the 0.8 (percent growth) over the quarter, 0.6 came from net exports," he told Reuters. "Obviously the rest of the economy is only adding 0.2 (percent), so not particularly impressive."

Economic growth for 2013 as a whole was just 2.8 percent, well below the 3–3.25 percent level required to stop the jobless total rising. The unemployment rate jumped from 5.8 percent to 6 percent in January, with 728,600 people out of work, and is officially expected to rise to 6.25 percent this year.

This official jobless level would stand at 7.5 percent if record numbers of workers had not already dropped out of the workforce since the 2008 global financial crisis. Even this figure is vastly understated. According to the Roy Morgan polling company, the real unemployment rate rose to 12.3 percent in February, and 28 percent among 18–24 year-olds.

Exports benefited from a lower Australian dollar, which fell significantly during the second half of 2013. Shipments of iron ore, coal and farm products rose, but prices generally stagnated, reflecting slowdowns in China and Japan and the ongoing downturn in Europe and the US. Imports of capital investment-related items fell, providing another indicator of an approaching slump, while ironically helping to produce the largest trade surplus since 2011.

Consumer spending rose 0.8 percent during the December quarter, yet real disposable incomes fell by 0.2 percent. Net disposable income per person has now dropped by 2 percent over two years. This suggests that the increased spending was largely generated by more affluent layers of society. At the same time, the national savings ratio dropped below 10 percent for the first time since 2010, indicating a rising household dependence on debt.

Some media outlets portrayed the data as good news. "Australia's GDP figures beat expectations," the *Sydney Morning Herald* reported. But the statistics cover the period before the devastating announcements by GM, Toyota and Qantas of thousands of layoffs. Moreover, they were overshadowed by a capital investment survey pointing to an imminent collapse in business investment.

While investment levels are expected to remain at $167 billion for the 2013–14 financial year, a slight rise

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from 2012–13, they will fall precipitously to $125 billion in 2014–15—nearly a 20 percent drop. The main anticipated fall is in mining, down 25 percent, from $102 billion to $74 billion. Investment in manufacturing, which has been sliding for years, is expected to fall by another third, from $8.9 billion to $6.3 billion.

Citing the investment drop, the Reserve Bank of Australia this week kept interest rates at record lows—a 2.5 percent cash rate—in a bid to stave off recession. *Business Spectator* columnist Callam Pickering commented: "The most problematic forward-looking indicator [for the Reserve Bank] … is the impending collapse of business investment… Business investment intentions indicate that the decline will be sharp but certainly not short."

As in the US and Europe, the corporate elite is gouging huge profits out of the working class, but not investing in production, preferring instead to sit on cash reserves, pay higher dividends and engage in speculative activity on the financial and property markets.

Australian share prices this week rose to their highest levels since the 2008 meltdown, buoyed by a 10.7 percent rise in gross operating profits last year, according to Bureau of Statistics estimates. Stockbroker CommSec said two-thirds of the 138 companies reporting half-year results increased their profits—the best result since 2009–10. About 69 percent lifted their interim dividends, while cash holdings mushroomed by 6 percent to $111 billion. Commsec's chief economist Craig James hailed the "astounding" profit-reporting season.

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Some of the country's richest people reaped the rewards. Casino boss James Packer added $65.6 million to his estimated $7 billion fortune when his Crown Resorts group's profit jumped almost 30 percent to $325 million. Iron ore magnate Andrew Forrest received $102.8 million in dividends from Fortescue Metals. Stock market veteran Kerr Neilson secured $45 million worth of Platinum Asset Management dividends. Seven West Media head Kerry Stokes picked up a $21.2 million payout. Property billionaire John Gandel got almost $30 million in dividends from CFS Retail Trust.

The working people are paying for these windfalls, via job losses, real wage cuts and stepped up rates of labour exploitation. Average wages rose by only 2.8 percent over the past year, which is less than the inflation rate, and well below profit growth. Real non-farm labour costs fell by another 0.7 percent in the December quarter, extending a near-10 percent drop since 1999.

Rising inequality is seen starkly in soaring real estate prices, which have placed home ownership out of reach for young workers, while benefitting property developers, construction firms, finance houses and the wealthy elite. The property bubble is most acute in Sydney and Melbourne, which now rank fourth and fifth on Demographia's list of the world's least affordable cities for home prices relative to incomes.

Global investment bank Credit Suisse this week stated: "A generation of Australians are being priced out of the property market. Many face a lifetime of renting." The bank largely attributed the affordability crisis to an influx of real estate investment by Chinese citizens, estimated at $5 billion annually, but this only partly accounts for the price bubble, which is also generated by the profit and dividend bonanza.

Credit Suisse's sole reason for identifying the trend was to highlight investment opportunities in high-rise apartment developers, such as Mirvac and Australand, as well as banks, building products suppliers like CSR, and Fairfax Media, owner of the Domain real estate website.

This rush to cash in on the hot-house conditions in the housing market typifies the destructive processes dominating Australian capitalism, with the rich intent on making ever-quicker and larger profits, at the expense of the jobs and futures of millions of working people.

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