National income falls sharply in Australia

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Statistics released this week in Australia highlight the deepening impact of the deteriorating world economy, which is leading to a steep drop in mining investment and export prices. The figures are fuelling further demands in corporate circles to slash public spending and drive up productivity at the expense of the working class.

Gross domestic product (GDP) grew 0.5 percent in the June quarter—an annualised rate of only 2 percent. This was a sharp reduction from the 3.5 percent annualised rate recorded in the first quarter.

That result, however, understated the reversal underway. The fall would have been greater except for an increase in inventories—generally an indication of a developing slump. Inventories added the equivalent of 0.9 percentage points to growth, while net exports detracted 0.9 percentage points, as commodity prices dropped.

More significant in terms of living standards was the fact that real national income per person fell for the second year in a row, driven by worsening terms of trade—the difference between import and export prices.

The Australian Bureau of Statistics, which released the data, regards national income as a better measure of economic well-being because it records how much revenue is generated from what is produced. In other words, production was still rising—at a slowing rate—but it was selling for less.

Net real income per person fell 0.4 percent in 2013-14, after dropping 1.6 percent in 2012-13—the worst result since the 1980s. There has now been a 2.6 percent drop since Australia's export commodity prices peaked in 2011 on the back of China's huge stimulus measures.

Largely because of stalling Chinese growth, the price of iron ore, which accounts for 20 percent of Australia's exports, has halved in just three years, dropping from a peak of $US180 a tonne to less than $90. The price has declined by 35 percent this year alone.

CLSA analyst Ian Roper predicted that the price would drop to $75 a tonne next year because of falling world demand, a global glut of low-cost supplies and a crisis in the Chinese housing market, which translates into a lower demand for steel.

Property prices declined in 91 percent of the 70 cities surveyed by China's National Bureau of Statistics in July, the worst result on record. Property sales dropped by 17.9 percent from a year earlier, and the number of unsold apartments rose by 25 percent over the same period.

Coal prices have also hit six-year lows. The forecast average price of coking coal, which is burned in blast furnaces to make steel, for this calendar year is $US125 a tonne, compared with $159 last year. For thermal coal, used mainly for energy generation, an average price of $74 per tonne is predicted this year, against $84 last year

The downturn within Australia has developed despite the Reserve Bank keeping official interest rates at a record low of 2.5 percent for 13 months in a row, in an unsuccessful bid to stimulate business investment and household consumption.

Mining investment has continued to plummet, with other business investment failing to offset the plunge. Capital investment for 2014–15 is officially expected to total $145 billion, down as much as 10 percent from last year's estimate for 2013–14.

Instead, the main outcome of the injection of cheap credit has been soaring housing prices, leading to speculation of an inevitable bursting of that bubble. In these conditions, the Reserve Bank cannot lower rates further, as the European Central Bank has just done, for fear of further fuelling the unsustainable housing price spiral and triggering a devastating crash.

This vortex of global and domestic factors was summed up by Australian National University professor Quentin Grafton, the former head of the Australian Bureau of Resources and Energy Economics. He told the *Australian Financial Review* that falling iron ore and coal prices, the slump in business investment, the overpriced housing market and a "high" Australian dollar had placed the Reserve Bank "between a rock and a hard place," unable to effectively intervene. And the Chinese economy looked like "unravelling," he warned. "Put all those things together and it could be a difficult ride for us."

Addressing a business function on Wednesday, Reserve Bank Governor Glenn Stevens warned of "nasty shocks in the future" if the property market kept soaring. He declared there was little the central bank could do to reduce the unemployment rate—now officially 6.5 percent—because "further inflating an already elevated level of housing prices seems an unwise route to try to achieve that."

Falling national income and mining commodity prices will also undercut government revenues from taxes and royalties, causing a blowout in the predicted budget deficit, and intensifying the corporate pressure on the Abbott government to impose more austerity measures. Treasurer Joe Hockey acknowledged on Wednesday that iron ore and coal prices were "well below" the May budget forecasts, and would have a "negative impact" on the "budget bottom line."

The corporate media has responded by stepping up its demands for the government to find ways to push through parliament the remaining major structural austerity measures in its widely unpopular May budget, impose deeper cuts to social spending, and drive down wages and conditions. On Thursday, Friday and today, the *Australian Financial Review* published consecutive editorials along these lines.

"This marks the end of a decade or more of easy national income," Thursday's editorial declared. It insisted that "voterland"—the newspaper's contemptuous term for working people—must have its "aspirations … curbed in line with the stagnation in national income." Friday's editorial message was blunt: "The political system needs to exploit the income crunch to make the case for productivity-enhancing reforms."

"Productivity-enhancing reforms" is code for slashing labour costs to boost corporate profits, in order to become "globally competitive" by matching the onslaught on workers' conditions that has been underway in Europe and America since the global economic breakdown erupted in 2008.

Real wages have already fallen in Australia for the past year. Wage levels rose by only 1.3 percent in money terms during 2013–14, well below the current inflation rate of 3 percent. This is nowhere near enough to meet the requirements of the financial elite, however. Increasingly, it is demanding lower wages, especially for young workers, the removal of penalty and overtime rates, greater casualisation and increased use of contractors.