Australian economy caught in global downdraft

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The Australian economy was to some extent shielded from the full impact of the global financial meltdown of 2008, largely because of the flow-on effects from massive stimulus measures undertaken in China.

Today, it is caught firmly in the downdraft of the world economy as the breakdown that began six years ago deepens, and economic stagnation and lower growth extend throughout the world's major economic centres.

Yesterday CPA Australia, one of the country's two professional accounting organisations, issued a survey of company audit reports showing that nearly one third of companies listed on the stock exchange (ASX) in 2013 were classified as being in risk of bankruptcy. This compares with the figure of one in five companies that received similar warnings at the height of the global financial crisis (GFC).

The companies that attracted "going concern" warnings from auditors are mainly in the bottom 500 of those listed by the ASX. Of these firms, some 58 percent are at risk. CPA chief Alex Malley said the figures were a "sobering reminder of the fragility of the Australian economy and the challenges many businesses face."

Malley cited the economic slowdown in China, the strength of the Australian dollar and the effects of the tapering mining boom as reasons why the risk of "financial catastrophe" had risen so sharply. "It really begs the question how our economy would be placed were we to face another shock like the GFC," he said.

The CPA report came amid further indications of rapid changes in the mining industry.

BHP Billiton, the world's largest exporter of seaborne metallurgical coal used in steelmaking, announced that it will axe 700 jobs across its Queensland operations, citing the high cost of operating in Australia. The BHP decision means that, in the coal sector alone, about 12,500 jobs have been cut over the past two years, accompanied by mine closures and delays in planned projects.

BHP's coal chief Dean Dalla Valle warned more pain was to come for the industry in a global "shakeout" over the next 12 months.

The iron ore mining industry is also being heavily affected by the global recessionary trends and the marked slowdown in China, the world's biggest steel producer. The iron ore price, which hit a peak of $187 per tonne in 2011, is now below $80 and could go lower.

This week, Li Xinchuang, deputy secretary-general of the China Iron and Steel Association, which represents the country's major state-owned steel mills, warned that steel output was flattening. With current production at 800 million tonnes, he said it could not go over the 900 million tonne mark, let alone the forecast by major iron ore exporters, BHP and Rio Tinto, of 1 billion tonnes per year.

The sensitivity of the Australian economy to the changes in the Chinese steel industry arises from the fact that one-fifth of the country's export receipts come from iron ore.

Despite a slowdown in demand, BHP and Rio are stepping up production in a ruthless price war that is aimed at sending smaller competitors to the wall, both internationally and in China.

The turbulence in the iron ore and other commodity markets is being matched by rapid shifts in the sphere of finance. After holding steady at around 94 cents to the US dollar for a number of months, the Australian currency is now below 90 cents.

The relatively high dollar value in the recent period was a direct outcome of the US Federal Reserve

Board's quantitative easing program. The ocean of cheap money supplied to American banks and finance houses sloshed around the world in search of profit opportunities.

This had a major impact on Australia because the inflow lifted the value of the local dollar, elevating the cost structure for manufacturing and other industries—a process reflected in the CPA audit report. Now funds could move in the other direction as the Fed moves to increase interest rates in the US and concerns grow about the state of the Australian economy.

However, a rapid fall in the dollar's value could have no less significant consequences than its upswing, as financial markets come under pressure. The signs are already emerging. In the past three weeks, the Australian stock market has lost all the gains recorded so far this year.

The housing market could also be the source of major problems for the entire economy. Yesterday in its semi-annual Financial Stability Review, the Reserve Bank of Australia expressed concern over soaring house prices and increased investor activity.

"The composition of housing and mortgage markets is becoming unbalanced," the central bank said, pointing to the expansion of credit for investment purchases of housing.

The bank said the increased use of interest-only loans by both owner-occupiers and investors was "consistent with increasingly speculative motives behind current housing demand." A sudden shift in the housing market could impact on the economy as a whole as families responded by cutting spending.

The potential for financial instability flowing from the housing market has been increased by the ongoing decline in real wages. The debt to income ratio for millions of homebuyers and their families has risen. This ratio presently stands at a historically unprecedented high of 150 percent. Even a relatively small increase in interest rates, as a result of changes globally or within Australia, would have far-reaching consequences.

These mounting economic problems are being expressed in the political sphere. The opposition Labor Party is already marching in lockstep with the Abbott government on war in the Middle East and the sweeping attack on democratic rights contained in new anti-terror laws, both of which are being used to try to project social tensions outward. Now Labor is moving to closer collaboration in securing the passage of stalled budget measures.

The Labor Party's opposition to the government's austerity budget in May was phony from the outset. It completely supports the central demand of the business and financial elites for the cutting of government spending, above all on social services. In fact, its main pitch to the ruling elites is that it could carry out this offensive far more effectively than the Liberals.

In May 1986, Paul Keating, then Labor's treasurer and later prime minister, warned that Australia was in danger of becoming a "banana republic" unless major economic restructuring was carried out. The restructuring over the next decade, targeting the conditions of the working class and boosting profits, is today held up as the "model" for the next set of "reforms."

Whatever the precise turn of events, and whether such a "national emergency" might again be invoked, one thing is clear: the worsening economic situation means ever closer collaboration between Labor and the Liberal-National government in deepening attacks on the working class.