# Australian economy heading for recession

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**29 May 2015**

The Australian economy is well on the way to its first recession in almost a quarter of a century, according to data released yesterday on planned investment by business over the next year.

A survey conducted by the Bureau of Statistics in April and May showed that total investment will drop by 21 percent for 2015–2016. Mining investment will be slashed by 34 percent, and in manufacturing by 24 percent, with a drop in other business investment of 6.1 percent.

The figures shatter the official scenario of the Treasury and the Reserve Bank of Australia (RBA), shared by the Liberal government of Prime Minister Tony Abbott, that the expected fall-off in mining investment as projects came on line would be compensated for by a rise in investment in other areas of the economy.

The data makes a sick joke of the centrepiece of Treasurer Joe Hockey's budget brought down two weeks ago in which he called for small businesses to "have a go" and take advantage of accelerated depreciation write-offs and tax concessions to provide a boost to overall economic growth.

Major newspapers voiced deep concern over the latest figures. The headline on the front-page report of the *Sydney Morning Herald* was "Economy Darkens" as it cited downbeat comments by JP Morgan economist Stephen Walters.

"The rotation away from mining investment that seemed to be progressing over the past year is no longer advancing," Walters said. "Firms outside resources have actually downgraded their spending intentions … They are in no position to offset the even steeper fall by mining firms."

The headline on the front-page of the *Australian Financial Review* (AFR) was "Alarm as business capex [capital expenditure] dives." After pointing to the fall predicted for the coming year, it noted that in the March quarter of this year spending by companies in new buildings and equipment had dropped by 4.4 percent, the steepest decline since the global financial crisis that erupted in 2008–2009.

The fall is particularly striking because it comes in the face of four years of interest rates cuts by the Reserve Bank of Australia. Last month, the RBA governor Glenn Stevens called for companies to lower their expected rate of return on investment projects and start spending. But this appeal has fallen on deaf ears in the face of worsening conditions globally and within Australia.

There is clear evidence that companies in Australia are following global trends. Instead of using their cash surpluses to make new investments, they are employing the funds to pay shareholders increased dividends. According to the AFR, before the financial crisis Australian firms used to reinvest 70 percent of their cash. Now the figure is 50 percent (see: "Wall Street buybacks: another expression of parasitism").

Commentary in the online financial media had the same essential theme: the assumptions on which government and financial authorities have based their policies for the Australian economy have been blown away.

*Business Spectator* analyst Callam Pickering described the data as "dreadful" and raised the question of whether Australia was on track for its first recession in 23 years. Until recently, he continued, the assumption of most market analysts and economists was that the "rebalancing process" in which investment in other areas compensated for the end of the mining boom was working.

"That assumption needs to be thrown out the door. Now it is a question of what can realistically fill the gap left over by this unprecedented collapse in both mining and non-mining investment," he wrote.

His answer was essentially nothing. Household consumption was being “hamstrung by exceptionally weak wages growth.” Export volumes were rising but export earnings were falling and demand from China was “moderating” because of its slower growth rate. It was conceivable that both export volumes and revenues could fall next year.

Residential construction was booming but only accounted for about 3.2 percent of domestic economy activity.

“Whichever way you choose to slice it, the Australian economy is poorly placed to deal with its upcoming challenges,” he wrote.

In the manner of a latter-day King Canute, fellow *Business Spectator* columnist Adam Carr chose to rage against the economic waves sweeping over Australia.

Four years after the RBA began easing monetary policy, business investment continues to fall and companies are even more reluctant to spend than they were a year ago, he noted. This was because the deteriorating economic outlook meant investment was inherently riskier. The outlook, in turn, was a result of the fact that “there is no positive growth narrative being offered in the Australian market”—not from the government, the bureaucracy or business.

Carr made clear that, in his view, not only had the RBA’s interest-rate cuts policy failed, it could also be worsening the situation. Ultra-low rates meant that having $1 million in a superannuation fund no longer provided a sufficient income for retirement.

At the same time, interest rate cuts had promoted a property boom, with warnings that a bust is near and recession inevitable.

“If that is so, it would be a recession clearly born from an ultra-low rate environment,” Carr wrote. “[T]rying to establish how the nation has actually benefited from this ultra-low rate environment isn’t … easy. There is nothing. Unemployment is higher, consumer spending is weaker, confidence lower.”

With existing policies not working and the failure of the RBA’s “gamble” on a low interest rate regime having failed, Carr said the reliance on monetary policy was distracting policymakers from addressing real problems and it was time for a “sensible and serious conversation” about policy objectives.

He did not spell out what that “conversation” should comprise. But the agenda has been made clear by financial and business representatives on previous occasions. It consists of so-called “structural reforms” to boost productivity—a code word for increased profits—by means of reductions in real wages, attacks on working conditions via increased “labour flexibility” and the cutting of social service spending and entitlements.

With Australia now very firmly in the grip of the deepening global economic breakdown, this austerity program is certain to be advanced ever-more stridently in the immediate future.