Reports forecast worsening economic conditions for Australia

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Banks and financial institutions issued a series of reports this week, predicting deteriorating prospects for the Australian economy. These warnings underscore the demands being placed by the financial elite on Malcolm Turnbull, the new prime minister installed last week, to push through deep cuts to social spending and workers' wages and conditions.

On Thursday, the Australia and New Zealand Bank (ANZ) became the first of the country's four major banks to forecast that the Reserve Bank would be forced next year to further cut official interest rates, already at record lows, because of the slump being produced by recessionary trends worldwide, China's slowdown and falling export commodity prices.

ANZ Bank economists Warren Hogan and Justin Fabo said the central bank would have to lower the benchmark rate from 2 to 1.5 percent because mining investment would continue to fall, potentially pushing up unemployment. They predicted that the current housing construction boom in Sydney and Melbourne, which has prevented the economy as a whole from entering a recession, would dry up by the end of 2015, compounding these pressures.

"Risks to growth in Australia's major trading partners in Asia, and Australia's terms of trade, are skewed to the downside, with China in particular facing several significant challenges," Hogan and Fabo said.

Previously, the ANZ economists forecast the Reserve Bank had finished cutting rates and would keep them on hold at 2 percent throughout the rest of this year and 2016. But Hogan warned that global growth was falling below expectations "despite very accommodative monetary policy globally"—referring to record low interest rates and the pumping of trillions of dollars into the financial markets via "quantitative easing."

Hogan pointedly questioned the durability of the reported boost in consumer confidence following Tony Abbott's removal as prime minister, saying "it may not be enough to move the dial on the economy in the next 12 to 18 months." He urged Turnbull's government to "present a vision for Australia's economy" and outline plans for a return to a budget surplus.

Writing in the *Australian Financial Review*, Jacob Greber underlined the implications for the Turnbull government. "The bleak forecast—which implies the number of Australians out of work will continue to climb next year from about 800,000—increases the looming budget squeeze on Prime Minister Malcolm Turnbull and his new Treasurer Scott Morrison."

Earlier in the week, the ANZ also lowered its predictions for prices for two of Australian capitalism's biggest export earners—iron ore and coking coal—because of the downturn in China, Australia's largest market. The bank warned that these prices, which have roughly halved over the past two years, could fall further and remain depressed for some years.

Iron ore may average about $US52 a tonne next year, 5.3 percent lower than previously forecast, and $US54 in 2017, a reduction of 10.5 percent, ANZ head of commodity research Mark Pervan said in a report on Monday. The outlook for coking coal, used in steel production, was pared back by as much as 13.5 percent.

"Lower Chinese growth forecasts have prompted us to lower our steel-demand outlook," Pervan stated. "In iron ore in particular we see little upside in prices for the next few years."

Previously, the ANZ predicted that China's steel consumption would peak in 2020, but now thinks that it already peaked last year. Credit Suisse Group AG also forecast a 9.5 percent drop in steel production between last year and 2018, from 823 million tonnes to 745 million tonnes.

These trends have major consequences for global steel prices as China seeks to export its excess. Chinese firms were expected to export 107 million tonnes this year, the ANZ forecast. “To put this in context: China will export the same level of steel as the entire Japanese steel industry (the world’s second-largest steel producer in 2014),” Pervan wrote.

A National Australia Bank (NAB) report issued earlier in the week declared that a recent visit to investor clients in Britain, continental Europe and the Middle East revealed a “uniformly negative view on Australia’s prospects.” One investor reportedly described the Australian economy as “toast.”

“I have never experienced such overwhelming negativity on the outlook for the Australian economy and Australian dollar in all my years marketing the Australian economy offshore,” NAB chief economist Ivan Colhoun wrote on Monday.

The Australian economy’s vulnerability to China’s slowdown was highlighted on Wednesday when the main Australian stock exchange index fell below 5,000 points for the first time in two years, wiping about $30 billion off share values, after another poor Chinese manufacturing outlook.

The China Caixin Manufacturing PMI for September posted a reading of 47.0, compared to the 47.5 expected. That is the lowest recording from the series since the immediate aftermath of the global financial meltdown in 2009. A level below 50 indicates contraction.

Last week, the International Monetary Fund said its research indicated that Australia would be the worst-hit advanced economy from slowing Chinese investment growth. Only Iran, Kazakhstan, Saudi Arabia, Zambia and Chile would suffer bigger effects.

IMF deputy managing director Min Zhu told an audience in Dalian, China, that a near halving of investment growth in China over the next five years would cut about 1 percentage point from Australia’s potential economic growth rate by the end of that period.

The IMF’s modelling is another indication that Australia’s growth rate will fall far short of the assumption made in this year’s federal budget that the economy would bounce back from low growth to expand by 3.5 percent a year for five consecutive years from 2017-18. This means that to achieve the Liberal-National government’s pledge to return the budget to surplus by early next decade, Prime Minister Turnbull and Treasurer Morrison will have to slash billions of dollars from government spending.

Throughout the two years of the Coalition government there was mounting frustration in the corporate establishment with its failure, in the face of popular opposition, to be able to impose several major budget cuts, notably in education, welfare and health. There were also growing criticisms of the government within the financial elite for postponing moves to “reform” taxation and industrial relations to drive down wages and conditions, cut corporate tax rates and boost profits.

This week’s series of reports underscore the fact that the mining investment boom, primarily generated by rising exports to China, which shielded the Australian economy to some extent from the full effects of the global financial crisis, has gone into sharp reverse. As a result, the corporate and financial elites will intensify their demands for a stepped-up assault against the working class.

The author also recommends:

Turnbull’s cabinet to deepen attacks on Australian working class
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