Australia: Reserve Bank leaves rates on hold despite plunge in investment

Mike Head
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The Reserve Bank of Australia (RBA) yesterday left its official cash interest rate unchanged at 2 percent, a record low, for the seventh consecutive month, while explicitly opening the door to further rate cuts in the new year if economic conditions continue to deteriorate.

In a contradictory statement, the RBA said its board "judged that the prospects for an improvement in economic conditions had firmed a little over recent months," but canvassed the prospect of rate cuts after it next meets in February. "Members also observed that the outlook for inflation may afford scope for further easing of policy, should that be appropriate to lend support to demand," it said.

RBA governor Glenn Stevens commented: "In Australia, the available information suggests that moderate expansion in the economy continues in the face of a large decline in capital spending in the mining sector." His statement was at odds with the reality of a sharp fall in non-mining investment, as well as in mining capital expenditure.

The Australian Bureau of Statistics reported last week that the business sector's overall capital spending dropped by a higher-than-expected 9.2 percent in the September quarter. It was the fourth consecutive quarterly fall, and the largest since the official survey began in 1989.

The decline was not confined to the mining sector, where capital spending fell by 10.4 percent. Non-mining investment was also 8.2 percent lower. Total capital expenditure for Australian companies in 2015–16 was expected to be around $120 billion, which is 21 percent lower than a year earlier. This was despite the Australian dollar falling over the past two years from around $US1.10 to $US70 cents, making exports more competitive.

These results presage an economic downturn because corporate investment is the key factor in generating production, and employment, within the profit system. If investment continues to fall off at this rate, tens of thousands more workers will join the 800,000 already officially unemployed.

The figures throw into doubt the efforts of the Liberal-National government, particularly since Malcolm Turnbull's installation as prime minister on September 15, to talk up the country's economic prospects.

Turnbull and Treasurer Scott Morrison, backed by the mainstream media, have sought to paint a picture of the Australian economy making a "transition" from a two-decade mining boom to new sources of growth, based on "innovation." But the promised investment is nowhere to be seen, except in the increasingly inflated housing and other property markets.

In yesterday's statement, the RBA endeavoured to put world developments in a positive light. "The global economy is expanding at a moderate pace, with some softening in conditions in the Asian region, continuing US growth and a recovery in Europe," it said.

The reality is ongoing global stagnation, driven by a decline in productive investment since the 2008 financial crash, and a consequent sharp slowdown in China, Australia's largest market. These factors are still pushing down the prices of the country's main export commodities—iron ore, coal and liquefied natural gas.

During the September quarter alone, the price of iron ore fell 28 percent, coal's price declined 16 percent and natural gas dropped by 5 percent. Yesterday, the benchmark iron ore price for immediate delivery to the port of Tianjin in China went below $US43 a tonne, the lowest level since The Steel Index began releasing its data in 2008.

The BIS Shrapnel business consultancy released a report yesterday warning of further sharp declines in mining investment. Its *Mining In Australia 2015 – 2030* report predicted that, after sliding 11 percent to $80.3 billion (constant 2012–13 prices) in 2014–15, mining investment would slide 25 percent this year and a further 25 percent next year.

The report forecast that the industry would lose a further 20,000 jobs during the next three years on top of the 40,000 direct losses since the investment peak in 2013-14.

Lower prices would also force mining companies to slash their labour costs, marking "a paradigm shift" that "is not expected to be temporary." This means that profits will be bolstered by tearing up mineworkers' jobs, wages and conditions. On this basis, mining companies were expected to boost their output by 6 percent annually over the next five years, generating higher export volumes, but at lower prices.

If not for the construction of six massive LNG projects worth a combined $200 billion, including Chevron's Gorgon and Wheatstone ventures in Western Australia, the figures would be worse.

These projects, however, are currently nearing completion and thousands of construction workers will be thrown out of work over the coming year. This toll will add to the tens of thousands of jobs being eliminated by the closure of Australia's entire car making industry by Ford, General Motors and Toyota.

Because of falling tax revenues, there is now mounting pressure on the Turnbull government, which is scheduled to deliver its Mid-year Economic and Fiscal Outlook (MYEFO), updating its May budget calculations, on December 15.

Deloitte Access Economics issued a report on Monday warning that federal budget deficits to 2018-19 would blow out to $38 billion larger than expected, primarily because of the China slowdown. "Weak wage growth"—an oblique reference to the fact that real wages are now falling in Australia—would also cut anticipated income tax receipts.

According to the Deloitte report, this year's budget deficit will be about $40.3 billion rather than the government's May forecast of $35.1 billion. Next year's will be $34.1 billion, rather than $25.8 billion, and the deficits in 2017-18 and 2018-19 will be $11.3 billion and $12.7 billion worse than the government predicted.

Deloitte economist Chris Richardson said "gridlock" in parliament was "making the job of budget repair harder." He complained that the Senate was "sitting on" expenditure savings worth $67 billion over the next decade. These cutbacks have aroused intense public hostility, forcing Labor and other Senate parties to stall them.

As far as the financial and corporate elite is concerned, this "gridlock" must be broken. Deloitte's report laid out a list of prescriptions, focusing on slashing spending on aged pensions, the National Disability Insurance Scheme, schools, Medicare and hospitals, and increasing the regressive Goods and Services Tax in order to cut company and other business-related taxes.

While Turnbull's government is anxiously seeking to demonstrate to business leaders that it can deliver deep structural cuts to social spending, it is currently playing down the prospect of a short-term, or even medium-term, return to a budget surplus. Facing a scheduled election next year, Treasurer Morrison this week declared that he had no intention of being "hairy-chested" by making any promises of surplus.

For their own electoral reasons, both the opposition Labor Party and the Greens have backed this approach, while striking deals with the government to cut social spending, including at the expense of aged pensioners and students. Continuing this collaboration, Labor MPs voted this week to reverse their opposition to two measures that will hit university students to the estimated tune of $1.1 billion over the next four years.

With mining companies ratcheting up output to offset falling prices, Australia's gross domestic product remains in positive territory, avoiding recession for now, but the lack of investment means that slump and intensified attacks on jobs and social spending lie ahead.