Australian stocks fall sharply on China and global fears

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Australia's stock exchange last week experienced its worst start to a year in recent history, and the share price falls continued for the seventh consecutive day yesterday, with mining and banking companies most seriously affected.

As of last night, the main Australian share indexes had dropped more than 7 percent in 2016, wiping off more than $100 billion in value from the S&P/ASX 200 stocks alone. This reflects, above all, Australian capitalism's acute vulnerability to the slowing growth and signs of economic instability in China, as well as the gathering world slump, which has sent mineral and energy export prices into a downward spiral over the past year.

As a barometer, shares in BHP Billiton, which was the world's largest mining corporation, yesterday slumped 4.9 percent to $15.55, its lowest level in 11 years. The company's value has fallen 55 percent in less than eight months because of falling iron ore and coal prices.

Australian energy companies Woodside Petroleum, Santos and Origin Energy also suffered further losses of up to 5 percent as global oil prices dropped to 12-year lows, with flow-on effects for the price of liquefied natural gas.

Amid fears of the financial fallout, shares in Australia's big four banks fell by more than 1 percent, taking their total losses over the past year to between 7 and 10 percent.

There are deep concerns on financial markets that the developments in China—declining manufacturing output, share market turmoil, rising debt levels and the official lowering of the value of the Chinese currency, the renminbi (yuan)—indicate that the situation in the world's second largest economy is worse than the Beijing authorities have admitted.

This could spell the end of the 24-year period in which the Australian economy has avoided recession, and become increasingly dependent on growth in China. Currently China takes one-third of Australia's total exports of goods and services (more than double the second largest market, Japan, at just over 15 percent).

The falling Chinese currency and gyrations on its share markets have led to fears that the Beijing authorities are losing their grip more broadly over the economy. Contango Asset Management chief investment officer George Boubouras told journalists: "This is effectively a lack of confidence from markets particularly in Chinese authorities' ability to control their currency, their housing market, their domestic heavily retail-focused equity market."

Matt Felsman, a private wealth adviser at APP Securities, referred to "a tsunami of negative psychology driven by growth concerns in the Chinese economy, crude oil prices plunging to 12-year lows reviving fears that indebted energy producers won't be able to remain solvent, North Korea testing nuclear weapons heightening geopolitical worries, alongside Middle East tensions between Iran and Saudi Arabia."

Australian share indexes still remain about 50 percent above the value to which they fell during the 2008-09 global financial crisis, but they have flat-lined over the past two years as the mining boom has begun to implode. Analysts are warning that the rout could now deepen. Another pointer is the fall of the Australian dollar, which dropped under 70 US cents yesterday, down to the levels seen after the 2008-09 breakdown. This is far below the highwater mark of around $1.10 set four years ago when Beijing's huge stimulus measures initially inflated demand for mining imports.

Several commentators have pointed to the likelihood of Australia falling into recession, following commodity-exporting economies such as Canada and Brazil. Andrew Charlton, director of Alphabeta, a management consultancy, told the Australian Broadcasting Corporation's "7.30" program last Friday: "China accounts for nearly 50 percent of all globally-traded commodity demand and that means that if you're a commodity exporter, you are in line for a recession. Canada is in recession. Brazil is in one of the worst recessions in its modern history and you would have to think that Australia is in that same firing line."

Already, over the past two years, capital investment—the engine of economic output under capitalism—has plummeted in Australia. While the mining sector has driven the plunge, it has spread throughout the economy. According to the Australian Bureau of Statistics (ABS), total capital expenditure for Australian companies in 2015–16 is expected to be around $120 billion, which is 21 percent lower than a year earlier. This is despite the falling Australian dollar making exports more competitive.

As 2016 began, there were signs of this decline extending to the property markets, where speculative investment, especially in housing, has largely kept the economy afloat, most notably in the highly-inflated Sydney and Melbourne markets. An ABS building approvals report showed that the number of dwellings approved fell 1.9 percent in November 2015, in trend terms, and has fallen for eight consecutive months.

Some property valuation firms, such as WBP Property, are predicting that falling house prices could be seen in Sydney and Melbourne this year, due to falling consumer confidence and tighter lending rules imposed by banks. Stagnant or falling average rental levels in capital cities, producing the lowest rate of annual rental growth for two decades according to an industry survey, are another indicator that the property bubble could burst.

Any such development would have serious implications for the banks, which rely heavily on mortgage loans for their profits, as well as their liquidity, and also remain highly dependent on borrowings on international money markets. Australia currently has the world's second most indebted household sector, at 122 percent of gross domestic product, only surpassed by Denmark. If the Reserve Bank of Australia were to start to lift interest rates, kept at an historic low of 2 percent for the past eight months, mortgage and other debt defaults would grow quickly.

Although retail sales grew by around 4 percent in the year to November, the post-Christmas collapse of two well-known retailers, Dick Smith electronics and Laura Ashley, a women's clothing and homewares outlet, suggests that a reversal could be underway.

Today it was reported that the ANZ bank-Roy Morgan consumer confidence index fell 1.9 percent in the week ending January 10, reversing a 0.8 percent gain in the previous week. The losses on international sharemarkets and concerns about China's turbulence particularly affected consumers' perception of their personal finances, with this sub-index falling 9.9 percent in just one week, the largest drop since March 2012.

The sharemarket fall also adds to the federal budget crisis faced by Prime Minister Malcolm Turnbull's government. Today, the *Australian* estimated that if the slump in commodity and stock prices continued, taxation revenues would be cut by nearly another $20 billion over the next two years.

Less than a month ago, in its mid-year budget review, the government said the expected budget deficits would exceed the May 2015 budget's forecasts by $26 billion over the next four years, taking the total deficit for that period from $82.2 billion to $108.3 billion.

The government's prediction was based on nominal gross domestic product growth rising from 1.6 percent in 2014-15 to 2.75 percent this year and to 4.5 percent in 2016-17. Given the signs of slump spreading from mining to shares, property and retail, this forecast has been quickly discredited. Deloitte Access, a business advisory firm, currently estimates that nominal growth will reach only 1.6 percent this year and 2.85 percent in 2016-17.

Even that modelling is predicated on economic assumptions, drawn from the past two decades, that are now highly questionable. Moreover, the corporate elite is placing mounting pressure on the Turnbull government to slash government spending, especially on social services and welfare—a demand that will not only seek to drive down the conditions of the working class but exacerbate the recessionary forces already at work.