

# Deflation spreads to Australia

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The annual federal budget to be delivered by the Australian government tonight will seek to paper over the deteriorating economic situation, globally and in Australia, until after the extraordinary “double dissolution” of both houses of parliament, set to be called for July 2.

Regardless of whether Prime Minister Malcolm Turnbull’s Liberal-National Coalition or the opposition Labor Party forms the next government, it will soon bring forward deep cuts to social spending and other austerity measures to impose the full burden of the slump on the working class.

A clear indicator of the recessionary forces overtaking the Australian economy was last week’s official cost-of-living statistics, showing the emergence of deflation for the first time since the 2008-09 global financial crisis.

Falling clothing, food and gasoline prices pushed the consumer price index down 0.2 percent in the first three months of 2016, taking the annual inflation rate to just 1.3 percent, its weakest result in 17 years.

Deflation, which has already been experienced for some time in Japan and Europe, is a warning sign of recession. It reflects weakening demand, associated with declining investment and real wages. It can also lead to a further downward spiral if companies and consumers delay spending, expecting falling prices.

Some economic commentators downplayed the deflation figures, attributing them primarily to lower global oil and commodity prices. But those lower prices are themselves the product of the global slump that is hitting Australia, together with other commodity-export dependent countries like Canada and Brazil.

Even the so-called “core” annual inflation rate, which removes volatile items such as fuel, dropped to just 1.55 percent, well below the Reserve Bank of Australia’s (RBA’s) target range of 2 to 3 percent and corporate economists’ projections for 2 percent. This

result—which came despite healthcare and secondary education costs both rising by more than 4 percent—signals domestic deflationary tendencies.

The marked slowdown in China, Australia’s largest export market, which is bound up with the stagnation in Europe and North America, is continuing to feed into the unravelling of the two-decade mining boom. Except for a speculative housing bubble in Australia’s two main finance centres, Sydney and Melbourne, the economy would already be contracting.

The most recent official producer price figures, released last Friday, showed that domestic final demand (excluding exports) fell by 0.2 percent in the March quarter with an annual growth in overall demand of just 0.8 percent—a level usually associated with recessions.

Significantly, deflation has emerged despite the RBA maintaining official interest rates for nearly a year at a record low 2 percent in an unsuccessful bid to stimulate borrowing and spending. Today, the central bank cut its rate to 1.75 percent.

Market economist Warren Hogan warned: “There is clear evidence that global economic fragilities are putting deflationary pressures into the economy ... Even if the RBA cuts rates substantially over the next 18 months, these latest figures highlight that Australia is unlikely to escape the global realities of weak nominal economic growth and low investment returns. This of course, has important implications for the Budget and fiscal policy.”

Half-year profit results released yesterday and today by two of Australia’s four big banks provided further signs of the impact of mining-related collapses and rising bad debts.

ANZ bank’s cash profit for the second half of 2015 fell 24 per cent to \$2.8 billion, with the largest reversals occurring in Asian and domestic business lending. Institutional business—which covers companies and

other large institutions—posted a 41 percent plunge in profits to \$632 million.

According to the bank, margins are under pressure from intense competition, costs associated with regulation and technology, lower trade volumes and reduced credit quality. ANZ said total provisions for bad and doubtful debts were \$918 million.

Mark Whelan, an ANZ executive wrote on BlueNotes, the company's news site: "It is a very disappointing result, that is the only way to look at it. But these are probably the toughest conditions I have seen in the institutional market in 25 years in banking—it is almost like the perfect storm."

Westpac unveiled a six-month profit of \$3.9 billion, up a bare 3 percent and well down on financial market expectations, largely due to significant corporate bankruptcies.

Earnings in Westpac's institutional business dropped 21 percent to \$517 million, with a \$252 million jump in provisions for bad loans, believed to include failed steelmaker Arrium, bankrupt miner Peabody Energy, law firm Slater & Gordon and transport company McAleese.

Any bursting of the over-heated housing market—where the major four banks draw their most lucrative profits—could quickly expose them to great difficulties. Despite being touted as among the strongest banks in the world, they are extremely vulnerable to an international funding freeze, as they were in 2008 before being propped up by a government guarantee of their borrowings.

The major banks, which between them employed the equivalent of more than 170,000 people full-time during 2015, have begun cutting their workforces. ANZ said its number of full-time equivalent staff fell by about 1,200 in the second half of 2015, to 48,896.

According to official jobless statistics, the seasonally adjusted unemployment rate for March dropped 0.1 percentage points to 5.7 percent. But that headline figure masked a further growth in part-time employment at the expense of full-time jobs. Part-time jobs grew by 34,900, while full-time employment declined by 9,000.

Working hours actually fell. Seasonally adjusted monthly hours worked in all jobs decreased 17.5 million hours (1.1 percent) to 1,632.3 million hours.

Unemployment data produced by the Australian

Bureau of Statistics seriously underestimate the actual jobless toll. An alternative survey by Roy Morgan Research showed the unemployment rate rose from 10.0 percent to 11.0 percent in March. Another 7.8 percent of the workforce was under-employed, that is, seeking more work. A total of more than 2.4 million workers were unemployed or under-employed.

During April, another 2,000 job cuts were announced by five companies alone—Royal Dutch Shell, telecommunications provider Optus, Perth-based Engineering group RCR Tomlinson, West Australian state-owned corporation Western Power and retail chain Target.

For electoral reasons, tonight's federal budget will avoid savage spending reductions. Nevertheless, it will assume that the next government can push through parliament 25 outstanding bills containing cuts worth \$13 billion over four years. These were not passed by the Senate from the 2014 and 2015 budgets, because of the public hostility toward the measures.

These include Family Tax Benefit cutbacks of \$6.3 billion, maternity leave cuts of \$1.3 billion and Pharmaceutical Benefits Scheme reductions of \$1.2 billion. Other provisions include reductions in unemployment entitlements and Medicare payments and lifting the retirement pension age to 70.

Once the election is over, even more sweeping cuts will be brought forward to meet the demands of the corporate elite for slashing social programs and cutting business taxes to boost profits. Today's *Australian* editorial set the tone, declaring: "With the dramatic double-dissolution timetable bearing down on him, Mr Morrison [the Treasurer] can be forgiven for being wary of unpopular measures, but he must not abandon meaningful reform."



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