Australian economic growth data masks slump and inequality

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Australia's gross domestic product (GDP) grew by 1.1 percent in the first three months of this year, according to official figures released last week. But the result was highly contradictory, pointing to the widening divide between the wealthy corporate elite and the vast majority of working people.

Media headlines proclaimed the strongest result in three years and both the Liberal-National government and the Labor Party opposition sought to exploit the data to boost their pitches for votes in the campaign for the July 2 double dissolution election.

However, while output rose by 3.1 percent over the year to March, real net national disposable income per capita slid 2.6 percent. The income figure—regarded as a measure of living standards—has now fallen for eight consecutive quarters, indicating a protracted decline in the conditions of life for most people.

This "income recession" features falling real wages, reduced working hours and lower government tax revenues. Labour costs for employers dropped in the March quarter, for the second quarter in a row, indicating an accelerating push to lower workers' incomes. This slump is producing deflation—average prices are declining, fuelling a tendency by companies and consumers to delay spending.

Almost the entire March quarter growth—all but 0.1 percent—was produced by greater export volumes, mostly from recently completed iron ore and liquefied natural gas (LNG) projects. Large mining and resource companies are currently ramping up their production, even as global prices continue to fall or stagnate because of the deepening world slump.

The proceeds are benefitting only the transnational corporations and finance houses that funded the projects, not the tens of thousands of workers retrenched from mines and mining construction sites over the past two years. Super-profits are being made by some of the largest companies in the mining industry, where nearly 15 percent of the workforce has been laid off since 2014.

Moreover, the surge in mining exports, which followed a fall in the previous three months, may prove to be temporary, due to sharp fluctuations in world demand. This further underscores the vulnerability of Australian capitalism to global shocks, especially the volatility and downturn in China, its largest export market.

By contrast to the export rush, consumer and business spending, measured by domestic final demand, grew a mere 0.1 percent in the March quarter, pointing to the recessionary conditions throughout many working class areas and mining towns.

A local breakdown of economic growth prepared for Fairfax Media by SGS Economics & Planning gave some picture of the stark contrast. It showed economic activity has been shrinking in 30 of Australia's 150 parliamentary electorates since at least 2014-15.

Economic activity in 2014-15 grew at more than 5 percent per annum in the inner suburbs of Sydney and Melbourne. These are the hubs of finance capital, where a debt-laden property bubble is continuing. However, there was contraction in a fifth of all electorates, including in the working class areas of western and southwestern Sydney and outer Melbourne.

The biggest reversals—more than 1 percent annual falls in economic activity—were taking place in working class southern and western Brisbane, the devastated coal mining towns of central Queensland, mining-related areas of Perth and rural South Australia, where major mine closures have added to the impact of manufacturing plant shutdowns in Adelaide.

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Prime Minister Malcolm Turnbull hailed the March quarter GDP data, saying it reinforced his election slogan of "jobs and growth." Turnbull claimed that "we are seeing strong growth in jobs," due to his Coalition's "clear economic plan and strong economic leadership."

At the same time, Treasurer Scott Morrison said while the headline GDP numbers were welcome, the economy was fragile. He insisted the government's promised $50 billion cut to company taxes over the next decade was essential in order to boost earnings.

While purporting to oppose this tax handout to big business, Labor's shadow treasurer Chris Bowen also spoke of the "fragile" state of the economy, in a bid to win backing from the corporate elite for Labor's pledges to restore growth.

Both major parties are relying on the unreal forecasts in last month's federal budget of a sudden return to high growth by next year. They are trying to scramble back into office by pledging not to slash healthcare, education, childcare and other essential social spending.

Statistics released last week, however, showed that business investment contracted sharply again in the March quarter. The Australian Bureau of Statistics said private sector capital expenditure on buildings, equipment, plant and machinery shrank 5.2 percent, seasonally adjusted, leaving it down 15.4 percent year-on-year.

Mining investment dropped 12 percent in the March quarter, and manufacturing fell more than 10 percent. Outside these areas, there was just a 1.8 percent pick-up in capital expenditure, exposing the official mantra about Australia making a "transition" from mining to an unspecified "new economy."

Total business investment has been falling in real terms since mid-2012, and is now down more than 25 percent over that four-year period. This precipitous decline means that plant closures and losses of jobs and working hours inevitably lie ahead.

Ironically, the March GDP figure was also boosted by a resulting drop in capital equipment imports. This only highlights the disconnect between the official growth data and the reality of recessionary trends.

International financial institutions and finance houses are increasingly sounding warnings about the Australian economy's heavy dependence on debt and the property bubble.

The Organisation for Economic Cooperation and Development (OECD) last week said the property boom could crash. "Domestically, the unwinding of housing-market tensions to date may presage dramatic and destabilising developments, rather than herald a soft landing," its report stated. Australia's exposure to Chinese markets also remained "an important source of uncertainty and risk."

A rise in federal and state government debt, which has tripled to about 34 percent of GDP over the past 10 years, has been outstripped by the doubling of private debt, to about 160 percent of GDP over the past 20 years.

"Australia's household debt ratio has grown above peaks established in countries where housing bubbles formed and burst, as in Ireland, Spain and the United States," LF Economics reported. "So highly leveraged is the housing market that even small declines in residential land prices will have adverse consequences."

US investment bank, Morgan Stanley warned that total household, corporate and government debt had reached a 243 percent of GDP, a level that heightened the nation's vulnerability to a deep downturn or recession. At the same time, nominal GDP growth had collapsed to 2.4 percent a year from its post-1996 average of 6 percent.

Moody's Investor Services has signalled it may put Australia's AAA rating on downgrade watch after the election unless deep cuts are made in the $40 billion annual budget deficit. Whatever promises the establishment parties—Labor, Coalition or Greens—make, they will be repudiated rapidly once the July 2 poll is out of the way.

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