Deteriorating Australian economy adds to pressure on Turnbull

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Economic data released over the past week highlights how far the economic situation in Australia has continued to worsen since Malcolm Turnbull was installed as prime minister last September 14—a year ago next week. The impact of the 2008 global financial breakdown is deepening after Australian capitalism was initially cushioned by huge Chinese stimulus packages that resulted in high demand for Australian mineral exports.

When Turnbull ousted his predecessor Tony Abbott he justified the Liberal Party room coup by declaring that Abbott failed to provide the necessary "economic leadership" for the country. But the statistics show sharply falling business investment, stagnant retail sales, declining real wages and destruction of full-time jobs over the past year.

This deterioration, driven by China's slowdown, global slump and further falls in export commodity prices, is intensifying the demands of the financial elite for the ruling Liberal-National Coalition, which barely survived the July 2 election, to move swiftly to impose far deeper cuts to social spending, corporate taxes and working conditions.

Corporate discontent with Turnbull's performance is feeding into the pressure being applied by Washington for the government to militarily challenge China's territorial claims in the South China Sea, and the media campaign calling into question Turnbull's commitment to a confrontation with China, which is Australia's largest export market.

Gross domestic product figures released today by the Australian Bureau of Statistics (ABS) show the quarterly pace of growth halved to 0.5 percent in the June quarter from 1.0 percent in the first three months of 2016. While the headline annual figure was 2.9 percent for 2015-16, that is deceptive. The growth consisted mostly of larger export volumes as the major mining companies pumped up production to try to offset lower prices, while much of the domestic economy was close to recession.

According to ABS data released last week, business investment declined by 15.2 percent last year. This is an ominous statistic because it foreshadows further major job losses in the period ahead. Mining investment fell 34.5 percent in the past year, and manufacturing investment declined 7 percent. While total non-mining investment grew by 2.8 percent, it was nowhere near enough to offset the overall drop.

Investment in mining has fallen by 56 percent since its peak of September 2012. By contrast, non-mining investment since then has risen by just 5.9 percent. In total, investment has dropped continuously since December 2012, with the size of the quarterly falls growing since mid-2015, just before Turnbull ousted Abbott.

These results point to the fraud of Turnbull's claims, initially backed by the corporate media, of making a "transition" to a new "exciting" economy based on "innovation" and higher-value services exports to China and other Asian markets.

The ABS forecasts for 2016–17 are even worse. Total private capital expenditure just exceeded $50 billion in 2015-16, but is expected to fall below $45 billion in 2016–17. This is the lowest such estimate since 2009–10, and that is in nominal terms, not accounting for inflation.

Although prices for Australia's main mining exports rose marginally in recent months, they are predicted to fall again, resuming a devastating slide over the past five years.

* Coal prices have halved from their peak of

$US132.5 per metric tonne in January 2011 to $67.3 in August 2016.

* Iron ore prices have been cut by two-thirds, from a peak of $187.2 per dry metric tonne unit in March 2011 to $61 in August 2016.

* Prices for liquefied natural gas (LNG), once touted as the new saviour of Australian capitalism, are also now just a third of the July 2012 peak of $18.1 per million British Thermal Units, sitting at $6.3 in August 2016.

These falls have cut government royalty and tax revenues, both federal and state, helping to push the annual federal budget deficit to around $40 billion, which is higher than it was in the immediate aftermath of the 2008 crash.

ABS figures released last week reported that total Australian retail turnover, in current prices, remained virtually flat for the past three months. Turnover was unchanged in July, seasonally adjusted, following virtual zero growth since January. For six consecutive months, growth has not exceeded 0.1 percent per month. This is well below the 20-year average of 5 percent annual growth in retail sales.

The depressed trend is the result of ongoing job losses and lower wages, which are forcing working class households to cut back on spending, with the worst results in household goods and department stores.

Even according to under-stated ABS unemployment estimates, the number of full-time jobs actually fell by more than 60,000 during the past year, while growing numbers of workers were pushed into lower-paid and less secure part-time or casual employment.

On average, real wages have increased by only 0.3 percent since 2013, and that figure is distorted by the widening gulf between the highest-paid executives, on millions of dollars per year, and the vast majority of workers, whose incomes are falling.

Except for a property bubble since 2012 in the three eastern capitals of Sydney, Melbourne and Brisbane, the economy would already be in recession. While business investment dried up, speculative funds poured into real estate, sending housing prices and rents soaring, adding enormously to the burdens on working class people.

However, analysts are warning that this bubble could burst. Prices have been falling for some time in the cities most exposed to the collapse of the mining boom, such as Perth and Darwin. Now there are clear signs of a glut in apartment construction in the eastern centres, which will soon throw thousands of building workers onto the dole queues.

AMP Capital chief economist Shane Oliver yesterday said apartment prices will fall by 15 to 20 percent in Sydney and Melbourne over the next two years. This could trigger defaults, especially among “off-the-plan” buyers who paid deposits on the expectation of ever-rising prices.

Earlier, global banking giant Citi made a similar prediction, saying housing starts reached a record 230,000 over the past 12 months, but the number was expected to fall to 172,000 in 2018. According to Citi’s equity analysts, risks are already rising for banks and developers.

The recessionary trends have continued despite the Reserve Bank of Australia (RBA) cutting official interest rates twice since last August, down to a record low of 1.5 percent. In its latest statement on monetary policy, issued yesterday, the RBA described the decline in business investment as “very large.”

Last month, as the parliament was about to reopen following the July 2 election, RBA governor Glenn Stevens delivered a warning to the Turnbull government and the political establishment as a whole: you must slash social spending, despite popular opposition, or the budget cuts will be imposed via a “moment of crisis.”