Ongoing investment plunge in Australia

Mike Head
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Australia's precipitous four-year slump in corporate investment is set to continue, according to official statistics released this week. This has serious consequences for jobs, as well as economic growth and the Liberal-National government's already large budget deficit.

Spending by companies on new buildings, equipment and machinery fell for a fourth straight quarter in the three months to December, sliding 2.1 percent from the previous three months—double the contraction forecast by business economists.

This extends a collapse that began when the country's mining boom began to implode in 2012. New capital expenditure, seasonally adjusted, fell 15.5 percent during 2016. It has declined overall from about $42 billion a quarter in 2012 to $27 billion per quarter in 2016, a drop of 36 percent.

There was also another slide in investment intentions for 2017–18. Companies told the Australian Bureau of Statistics (ABS) they would spend just $80.6 billion, or about $20 billion a quarter, in the next financial year. That is 3.9 percent less than they forecast a year ago for the current financial year.

These indicators have ominous implications, because capital investment is the key driver of economic activity under the capitalist profit system. Workers and young people are already paying for the crash. Unemployment and under-employment now affects more than 2.4 million workers, or nearly 18 percent of the workforce, according Roy Morgan polling company surveys. Of these, 1.3 million are jobless and 1.1 million are under-employed, that is, they want more working hours.

Despite the government's claims of delivering a "transition" to a new economy based on being "agile" and "innovative," the slump extends beyond mining. Mining investment has plunged almost 60 percent since its peak in 2012, and is expected to fall by another 27 percent in 2016-17, but there has been no overall rise in non-mining investment.

Instead, the mining plunge has flowed onto other areas of the economy, especially in the former mining-dependent states of Western Australia, South Australia and Queensland. This trend is far from over. Plans for mining investment in 2017–18 are down by another 20 percent, and those for manufacturing investment by 1.2 percent. Plans for unspecified "other selected industries" are up 8.3 percent, but nowhere near enough to offset the overall slide.

The ABS figures are bleaker than those given by the government of Prime Minister Malcolm Turnbull in its December budget update, which forecast a decline of just 12 percent in mining investment, offset by an increase of 4.5 percent in non-mining investment.

The investment freeze-up highlights how reliant Australian capitalism has become on mining and mining-related financial activity since the turn of the century, primarily driven by China's economic expansion.

Mining investment in Australia soared from 2 percent of gross domestic product (GDP) in the early 2000s to 9 percent in 2012, and has now plunged back to just above 3 percent. Over the same period, non-mining investment dropped as a share of GDP from about 12 percent to around 9 percent.

In a speech on Wednesday, Reserve Bank of Australia governor Philip Lowe conceded that non-mining investment has suffered "significant spill-over effects" from the mining slump. The results undercut his previous claim that "economic headwinds" from the unwinding of the mining boom would soon "blow themselves out." The central bank chief told international investors in February that 90 percent of the slide had already happened.

Capital Economics chief economist Paul Dales said the new statistics left "question marks hanging over hopes that non-mining investment will soon rise significantly." Dales said the figures were disappointing because iron ore and coal prices recovered somewhat during 2016. The results suggested that even if prices remain higher, businesses would "pocket the money rather than boost capex (capital expenditure)."

Dales further noted that the Reserve Bank has also counted on higher wages growth to boost the economy. But this week's wages figures showed continued record low growth. Average weekly earnings rose just 1.6 percent in 2016, barely above the official consumer price index rise of 1.5 percent.

These results indicate that the recession gripping much of the country, outside the financial centres of Sydney and Melbourne, will persist. Despite record low official interest rates of 1.5 percent, the economy contracted by 0.5 percent in last year's September quarter, and the result would have been worse except for a housing market bubble in these cities.

The latest fall in investment prompted global financial services firm UBS to cut its growth estimate for the December quarter from 1 percent to 0.7 percent, implying an annual growth rate of just 1.9 percent for 2016. This is far below the 3 percent forecasts on which the government has based its budget calculations.

Even that prediction will be shattered if the property market bubble and associated apartment construction boom unravels. In Wednesday's speech, Reserve Bank governor Lowe warned of a "sobering combination" of record levels of household debt and slow wages growth.

"It is possible that continuing rises in indebtedness, partly as a result of low interest rates, increase the fragility of household balance sheets," Lowe said. "If so, then at some point in the future, households, having decided that they had borrowed too much, might cut back consumption sharply, hurting the overall economy and employment."

On Wednesday, in another symptom of the deepening destruction of manufacturing jobs, Coca-Cola Amatil, a partly-owned Australian subsidiary of the US giant, announced the closure of its bottling plants in South Australia. About 200 jobs will be eliminated, worsening the toll being produced by the closure of Australia's auto assembly plants by Ford, General Motors and Toyota.

The investment statistics compound the perplexity in the ruling class over the fact that annual foreign direct investment inflows halved, to less than $30 billion, between 2013 and 2015. Turnbull's government recently tried to use the foreign investment plunge to ramp up its campaign to slash the company tax rate from 30 to 25 percent over the next decade, and match the sweeping cuts to US corporate taxes promised by President Donald Trump.

The financial elite is demanding that Turnbull's government deliver deep cuts to business taxes and social spending, especially welfare, health and education, as well as to workers' wages and conditions, in order to stem the haemorrhaging of investment. The implementation of these demands will only fuel the already intense popular discontent and escalate the crisis of the government, which only holds a one-seat parliamentary majority following last July's federal election.