

Australian economy “going into a hole”

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Concerns are mounting that the Australian economy is about to end its record-breaking run of 26 years without a recession and that such an occurrence could trigger financial turbulence because of the rise of debt.

On Thursday, Australian Bureau of Statistics (ABS) retail sales data recorded their largest two-month decline for seven years, in a sign families are cutting back spending in conditions of stagnant or falling real wages.

Sales fell by 0.6 percent in August, following a 0.2 percent decline in July, after predictions they would show a 0.3 gain. The August fall was the largest since March 2013. The two-month decline was the most severe since late 2010 and the first two-month back-to-back fall in almost five years.

With consumer spending accounting for around 60 percent of Australian gross domestic product (GDP), there are fears over what the fall signifies for the broader economy. Since the end of the mining boom, growth has been sustained to a considerable extent by the inflation of house prices.

Commenting on the sales data, former chief economist at the ANZ bank Warren Hogan said: “We’ve got this declining trend accelerating. If this is not ‘statistical,’ if this is not a sampling error, then this is the sort of dynamic you’d see in an economy that is going into a hole.”

Reporting on the latest Morgan Stanley AlphaWise survey findings, *Business Insider Australia* noted: “Australian households are in a vulnerable financial position, especially those who have taken out a mortgage. And in an era of weak incomes growth, soaring energy prices and high levels of indebtedness, with the prospect of higher interest rates on the way, many intend to cut discretionary spending in anticipation of even tighter household budgets.”

In a note released this week, Morgan Stanley wrote: “In early June, we expressed the view that the

Australian consumer faces a domestic cash flow and credit crunch.”

Income growth, the note commented, has not recovered, cost of living inflation was accelerating and the tightening by the banks on loans for mortgage borrowings was extending into consumer finance.

Morgan Stanley’s warnings are based on a survey it conducted in late July and early August to try to identify the financial position of households.

“Most households have minimal buffers against a shock to their income, and expect to respond to higher debt servicing costs by drawing down on savings and cutting back on expenditure,” it said.

Morgan Stanley noted that while other sectors of the economy may be able to offset some of the weakness in the economy, “the concentrated exposure of the household sector and economy to an extended housing market is posing an increasingly important structural and cyclical risk to consumer spending.”

The worsening position of the Australian economy has caught the attention of the international financial press. Two major articles published by the news service *Bloomberg* this week both pointed to the risks posed by extraordinarily high debt levels.

An article by Michael Heath observed that while mining profits fuelled riches for the stakeholders, they did little for the vast majority living in the cities. Wages were barely growing, households carry some of the world’s biggest debt loads and productivity gains in the economy had petered out.

Jeremy Lawson, chief economist at Aberdeen Standard Investments in Edinburgh, and a former Reserve Bank economist, commented: “Now that we don’t have the benefit of the mining boom, there’s nothing really that replaces it in terms of driving economic activity.”

The *Bloomberg* article noted that household debt in Australia is at a record high of 194 percent of income,

compared with 104 percent in the US.

An article by financial analyst Satyajit Das began: “Australia’s record of 26 years without a recession flatters to deceive. The gaudy numbers mask serious flaws in the country’s economic model.” It was too dependent, Das wrote, on “houses and holes”—minerals that come out of the ground and at other times relying on low interest rates to boost house prices which prop up economic activity.

“Yet a significant portion of housing activity is speculative. Going by measures such as price-to-rent or price-to-disposable income, Australia’s property market looks substantially over valued,” Das concluded.

Among young workers and families, home ownership has fallen to the lowest levels on record as house prices have risen by 140 percent in the past 15 years. Sydney, where the median price for a house is over \$1 million, is now ranked as one of the top two housing markets in the world and Melbourne is now the sixth most expensive city in which to buy a house.

Das noted there was a growing Australian “debt bomb.”

“Australia’s total non-financial debt is over 250 percent of GDP, up around 50 percent since 2010. Household debt is currently over 120 percent of GDP, among the highest proportions in the world.” The ratio of household debt to income (194 percent) had increased five-fold since the 1980s.

“Stagnant real incomes have contributed to the problem as have high home prices and the associated mortgage debt. Despite record-low interest rates, around 12 percent of income is now devoted to servicing all this debt. That’s a third more than in 1989–90, when interest rates neared 20 percent.”

Das pointed to the broader implications of the high debt levels, warning they increased the risk of a banking crisis sparked by rising losses on real estate loans. Australia was especially vulnerable “because of its dependence on foreign capital; foreign debt tops 50 percent of GDP, much of it borrowed by banks to cover the shortfall between loans and domestic deposits.”

Despite the official claims that Australia managed to weather the 2008 financial crisis because of its supposedly better managed financial system, that vulnerability was exposed in October 2008 when foreign funding for Australian banks dried up literally

overnight. Had that continued the banks would have become bankrupt. The crisis was only alleviated when the Rudd Labor government stepped in to act as the banks’ guarantor.

Reflecting the views of the financial elites and corporate chiefs, the two authors bemoan the “toxic” Australian political culture, which has seen a succession of prime ministers in the past ten years—each lasting around two years—saying this had prevented economic “reform.”

In the inverted lexicon of present-day finance capital, “reform” no longer means an improvement in social and economic conditions for the population. Rather, it signifies deeper attacks on wages, jobs and social services, combined with tax cuts for the corporations and the wealthy to boost the bottom line at the expense of the working class.

Like their American counterparts, who seized on the 2008 crisis to drive through such “reforms” in the US economy, sections of the Australian elites are looking to a major economic and financial crisis to do the same.

The former banker Jeremy Lawson told *Bloomberg*: “Crisis begets reform in Australia.” When the crisis comes, he added, “you’re forced to make much more significant adjustments at the time.”



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