Australia: Lowest consumer spending since global financial crisis

Nick Beams
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The impact of historically low wage rises, coupled with the rising costs of electricity and housing, on working class families is reflected in the Australian national accounts figures for the September quarter published on Wednesday.

Consumer spending on almost all discretionary purchases, after payments for essentials, was down. The result was that overall consumption spending rose by just 0.1 percent, the smallest increase since the global financial crisis of 2008.

There was a 2 percent rise in private investment spending on buildings and capital equipment and a 7 percent increase in government capital investment. These produced an overall expansion in the economy of 0.6 percent for the quarter and an annual growth rate of 2.8 percent—lower than market expectations. Gross domestic product per capita, accounting for population growth, increased by just 0.2 percent.

AMP chief economist Shane Oliver welcomed the rise in non-mining investment, but said consumer spending was "being dragged down by low wages growth, slowing wealth accumulation, poor sentiment, high debt levels and rising energy costs."

In the recent period, consumer spending has only been maintained by households using their savings but there are indications even this is coming to an end.

BIS Oxford chief economist Sarah Hunter said the weak consumer spending was a sign that many households were struggling with anaemic wage growth and rising prices for essential items.

The annual growth rate of 2.8 percent over the past year was an improvement over the June quarter, when it was just 1.9 percent. However, it is now five years since the economy grew at 3 percent, which used to be the long-term average.

Overall wage payments showed a rise of 1.2 percent in seasonally adjusted terms, the best result since 2013. But once this is analysed more closely a somewhat different picture emerges.

As *Guardian* economic journalist Greg Jericho noted, while the growth of wage payments was an improvement, the average growth per employee was just 0.9 percent.

"As 0.9 percent remains well below inflation, it means that real compensation per employee has gone backwards in the past 12 months and remains at a point below 2010 levels. This translates into a similarly poor result for household disposable income … In the past year, real household disposable income fell 1.9 percent, and it also means that the level of income households have at their disposal is lower that it was five years ago."

While the national accounts figures deal with averages over the economy as a whole, a breakdown of economic data by Terry Rawnsley of SGS Economics and Planning shows that it is highly concentrated and that many areas are stagnant or even going backwards.

According to his analysis, Sydney accounts for 41.2 percent of Australian economic growth, with the other major growth centre being Melbourne. Together the two cities accounted for more than two thirds of Australian economic growth in 2016–17.

Analysis conducted by SGS in February this year revealed a higher level of concentration than even these figures indicate. Three Sydney districts accounted for almost one quarter of economic growth in the financial year 2015–16 and there is no indication that the situation has changed since then.

According to the SGS data, Sydney's CBD area, the inner northern suburbs and the north-western Ryde district accounted for 24 percent of gross domestic product growth in that year. The lowest economic

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growth rates in Sydney, no greater than 2.5 percent, were in the predominantly working class statistical districts of Parramatta, Outer West and South West.

The economies of five statistical districts in NSW, covering regional areas, actually contracted in the year 2015–16, a trend also reflected elsewhere. The SGS noted that the disparity in growth rates across the country was now greater than at any time during the mining boom.

Other data show that growth is increasingly concentrated in a narrow range of economic activities in Sydney. Financial services is now the most important economic sector, accounting for 15 percent of the economy, up from 11 percent 20 years ago. The next most important is professional services at almost 10 percent, up from 6 percent in 1997.

The impact of the so-called "transition" in the Australian economy, arising from the destruction of large sections of manufacturing industry, is starkly revealed by data for Melbourne.

Had manufacturing not rapidly fallen with the closure of the Ford and General Motors Holden plants, Melbourne's GDP would have been 0.6 percentage points higher. Manufacturing now accounts for only 6 percent of the city's economy, compared to 16 percent 20 years ago.

Financial services are now Melbourne's most important industry, accounting for 12 percent of output with professional services accounting for 9 percent.

When the city's population growth is taken into account, GDP per capita fell by 0.1 percent in 2016–17 and has declined in six out of the past 10 years. Brisbane, Perth and regional Western Australia are also showing falling levels of GDP per capita.

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