Growing signs of Australian economic fragility

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A rapid fall in the east coast's inflated housing market, a sharp decline in the currency, slowing economic growth and stagnant wages—these are among the indicators of Australian capitalism's fragility, amid mounting global turbulence.

Indices covering all those sectors have prompted nervous warnings that 2019 could see the Australian economy wracked by recessionary tendencies.

End of year figures released by CoreLogic showed that median house prices across the country fell by 4.8 percent in 2018. It was the largest annual decline since the global financial crisis of 2008–2009. The group's analysts predicted that the trend would intensify in 2019.

Commentators noted that the figure obscured how precipitous the fall has been on the east coast, which has been at the centre of a frenzied investment-fuelled property bubble.

Sydney's median property price fell by around 10 percent in 2018, equivalent to roughly $100,000 per dwelling. This took the total fall since the city's market peak in early 2017 to 11.1 percent, the sharpest correction in over 35 years. The annual decline in Melbourne was 9.1 percent, or an average of about $75,000 per property.

The figures indicated an acceleration of the downturn, with Sydney and Melbourne median prices falling by over 4 percent, or more than a third of their total annual decline, in just the final three months of 2018.

In a sign of dwindling investor confidence, property purchases across the country by foreign-based buyers plunged by 11 percent over the year.

Mortgage rate rises by three major banks—Westpac, ANZ and the Commonwealth Bank—in the last half of 2018 were also a factor in the price declines. They increased the difficulties of working people seeking to buy a home, amid a soaring cost of living and stagnant or declining wages.

Figures for the September quarter, released late last year, showed that price declines were beginning to affect the middle and lower segments of the Sydney and Melbourne markets, not just more expensive dwellings, as previously had been the case.

The property market downturn is one aspect of broader uncertainty surrounding the Australian economy. The dollar fell to 67.49 US cents on Thursday, its lowest level in a decade, before rebounding to close to 70 cents later in the day. That volatility demonstrated the vulnerability of Australian capitalism to global economic headwinds.

Thursday's sharp fall, following declines last year, was bound up with moves by international traders away from currencies perceived as risky. Their concerns were intensified by figures this week showing a decline in the pace of Chinese manufacturing output, reflecting the initial fallout of the US Trump administration's trade war measures against Beijing, and Apple's announcement of major China-related losses, which prompted a 7.45 percent fall in its share price. China is Australia's largest trading partner and export market.

The currency decline is one expression of a broader recessionary trend. Australian gross domestic product (GDP) figures released last month showed seasonally adjusted growth of just 0.3 percent for the quarter to September.

The rate was the lowest in two years and well below forecasts of 0.6 percent. The fall was driven by a sharp downturn in construction, indicating the broader economic impact of the property slowdown, as well as decreased household spending.

The figure was artificially boosted by government spending, especially in large infrastructure projects geared to the profit interests of big business, which added 0.2 percent to real GDP.

The confluence of potential flashpoints for a new financial crisis, including ongoing turbulence on the Australian and global share markets, has intensified the dilemmas confronting the ruling elite.

Last month, the Reserve Bank maintained its official cash rate at the record low figure of 1.5 percent. The bank had foreshadowed possibly raising the rate over the next couple of years. Last month, however, Guy Debelle, the bank's deputy governor, told business executives that further rate cuts and unprecedented quantitative easing-style measures could be on the agenda.

This would be a desperate attempt to stimulate the economy. It would clash with the move toward interest rate increases in the US and Europe, and the winding back of quantitative easing there as well. The major private banks, moreover, are under pressure to increase their own lending rates, in line with hikes on the international markets, where they borrow their funds.

Debelle's comments reflected fears within the ruling elite that having promoted the frenzied property market, through low interest rates and government incentives to investors, including negative gearing and capital gains tax concessions, any move to rein in the market could lead to a credit crunch and recession.

Indicating the extent to which the property bubble has been based on an orgy of speculation and reckless lending, cosmetic regulatory measures introduced last year appear to have contributed to the housing slowdown.

In December, the Australian Prudential Regulation Authority (APRA), a regulatory body, lifted restrictions introduced at the beginning of 2018, which had stipulated that less than 30 percent of banks' new residential mortgage holdings consist of "interest-only loans." Such loans are considered especially risky, because for a fixed period, usually seven years, the mortgage holder is not required to make any repayments on the principal. At the end of this period, borrowers face a steep increase in their repayments, which they may be unable to meet.

APRA's introduction of the regulation in early 2018 resulted in a 57 percent fall in new interest-only loans over the following months. It decided to scrap the rule after warnings by the Reserve Bank, Australia's central bank, of a potential credit squeeze with broader implications.

The Australian economy largely has been propped up since 2012 by the property market, following the collapse of the mining boom, on top of the post-2008 slump in manufacturing and retail.

The unravelling of the property bubble has created the conditions for a new financial crisis. Mortgage debt accounts for over 60 percent of the assets of most major banks, and 30 percent or more of their holdings are interest-only. These loans are expected to mature over the next two years, prompting warnings of a sharp increase in defaults.

Already, an estimated one million households are suffering mortgage stress—their household income is insufficient to cover ongoing expenses. Modelling has indicated that some 60,000 of these households are at risk of defaulting on their mortgages over the next year.

Analysis by the Australian Broadcasting Corporation in September found that a mere 0.5 percentage point interest rate rise would increase the proportion of households suffering mortgage stress from around one in four, to one in three. A 2 percent rate increase would send half of mortgaged households into stress.