

# Signs of slump in Australia overshadow looming election

**Mike Head****18 January 2019**

Economic indicators are pointing to a sharp downturn in Australia, driven by the intensifying global turmoil, that will shatter all the promises being made, including by the opposition Labor Party, in the lead-up to a general election that must be held by May.

Reports have emerged in recent days of poor retail sales, more closures and job losses, plunging consumer and business confidence and rising bank interest rates. These indices have added to the concerns generated by the collapse of the property market bubble that largely propped up Australian capitalism after the implosion of the mining boom in 2012.

The trends are further signals of the Australian economy's exposure to the growing impact of the US-China trade war and underlying economic conflict. This is adding to a growth reversal in China—Australia's largest export market—plus the uncertainty produced by the Brexit crisis, plunges on world share markets and signs of political instability and recession in Europe.

Adding to the nervousness in the corporate elite is the brittleness of the political situation in Australia itself. The Liberal-National Coalition government has continued to be wracked by factional warfare since last August's backroom coup that installed Scott Morrison as the seventh prime minister since 2007. The Labor Party and trade union leaders sounded alarms at last month's Labor Party conference about explosive discontent in the working class because of years of falling wages, attacks on working conditions and deteriorating social services.

Yet all the deceptive pre-election pledges being made by the Coalition, Labor and a plethora of other parties are predicated on unreal assumptions of strong global and domestic economic growth. Once the election is out of the way, whichever party heads the next government will seek to impose yet another wave of

austerity measures and job-shedding.

"The latest sharp decline in consumer confidence highlights the fragile nature of the national economic outlook as well as domestic and global political uncertainty," warned Thursday's editorial in the *Australian*.

"A fall of 4.7 percent from last month—and more than 5 percent from the same time last year—is the largest drop in the Westpac-Melbourne Institute Index of Consumer Sentiment for more than three years. It marks a tipping point from cautious optimism to a clearly pessimistic outlook and it is mirrored by anecdotal evidence of softness in the retail sector."

That index's fall to 99.6—below 100 indicates pessimism—followed what the *Australian Financial Review* termed "soft economic data in recent weeks." These included weak housing credit, further falls in home prices, a plunge in residential building approvals—pointing to falling dwelling investment, continuing weakness in car sales, a downturn in job ads and vacancies, and falls in business conditions.

Perhaps the sharpest recent signs are those in the retail sector. The 87-store menswear chain Ed Harry went into administration on Tuesday following "particularly tough" Christmas trading, threatening about 500 jobs. Analysts expect more retailers to collapse this year.

According to ShopperTrak, which measures visits to shopping centres, customer traffic year-on-year fell 15 percent in the week ending December 23 and 23 percent in the week ending December 30, dragging the result for December down 12.2 percent. This cannot simply be accounted for by the growing shift to online shopping which has produced a 12-month average decline of just 2.2 percent.

Shares in Wesfarmers, the country's largest retail and

supermarket conglomerate with about 220,000 employees, fell on January 14 after the group said earnings from its department stores division would fall about 7 percent in the December-half to between \$385 million and \$400 million, with especially weak Christmas trading at Kmart.

The negative Kmart trading update followed profit warnings from two prominent retailers, Kathmandu and Costa Group. More such reports are likely to come. Deutsche Bank last week said several retailers had described recent trading as the “worst Christmas in a number of years.”

The Ed Harry liquidation adds to a list of high-profile closures that have destroyed thousands of jobs over the past two years. These included Herringbone, Rhodes and Beckett, Top Shop, Dick Smith, Orotan, Marcs, David Lawrence, Pumpkin Patch, Payless Shoes, Live Clothing, Maggie T, Metalicus, Esprit, Roger David and Toy ‘R’ Us. Major retail chains, such as Premier Investments, Myer and David Jones, are also shutting down stores.

Homewares retailers in particular face difficulties, with house prices tipped to fall another 5 percent in 2019, on top of 6.1 percent in 2018, cutting the capacity of debt-laden households to borrow on the basis of inflated values. Dwelling commencements dropped 5.7 percent in the third quarter of 2018.

The retail bankruptcies are adding to the pressure on the banks, already facing the prospect of rising mortgage defaults. Australia’s four big banks rely on home mortgages for up to 70 percent of their loans and profits, with commercial business lending accounts for most of the remainder.

Also experiencing rising interest rates in the global financial markets on which they depend for their lending funds, the banks have begun lift mortgage rates, and this will add to the likelihood of household defaults.

National Australia Bank’s digital bank UBank raised rates on a range of fixed-interest products by 20 basis points this week, following similar moves by Commonwealth Bank of Australia’s subsidiary Bankwest and Bank of Queensland’s Virgin Money. Other lenders are expected to do the same.

AMP Capital chief economist Shane Oliver told the *Australian Financial Review* this week that rising funding pressure and deteriorating economic conditions

would force the central bank, the Reserve Bank of Australia (RBA), to cut official cash rates, which have been held at an “emergency” low of 1.5 percent for a record 28 months.

This would be a stark turnaround. The RBA previously indicated that it would soon start to follow the US Federal Reserve and other central banks in increasing interest rates to “normal” levels after a decade of pumping cheap money into financial markets since the 2008 global breakdown.

The January 17 *Australian* editorial pointed to preparations being made in corporate ruling circles for an election defeat of the Coalition government, saying there was evidence that “consumers and businesses already may be factoring in a change of government in Canberra.”

The editorial demanded a political focus on the economic fragility, instead of the “leadership rivalries, personality feuds, and sex and entitlements scandals” that have erupted within the Coalition government. “Repairing our fiscal position” had to be a central issue in the election.

In line with such demands from the ruling class, Labor has vowed to deliver bigger budget surpluses than the Coalition, while still making populist pitches to address the deepening social inequality, and matching the government’s massive boost to military spending.

Eliminating the multi-billion dollar budget deficits that have prevailed since 2008 will mean intensifying the attacks on essential social programs, such as health, education, housing and welfare, regardless of all the election promises.



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