Worsening slump and inequality fuel social tensions in Australia

Mike Head
13 February 2019

Australia's central bank last week joined its much larger counterparts in the United States and Europe in signalling an abrupt about-face on monetary policy. After spending months foreshadowing an increase in official interest rates from their current record low of 1.5 percent, the Reserve Bank of Australia (RBA) announced there was an equal chance that its next rate movement would be down.

As in the US and the European Union (EU), the reversal of mooted rate rises is driven by signs of a global downturn, exacerbated by mounting trade war and political tensions. In a speech last week RBA governor Philip Lowe warned of "the accumulation of downside risks" globally.

He stated: "Many of these risks are related to political developments: the trade tensions between the United States and China; the Brexit issue; the rise of populism globally; and the reduced support from the United States for the liberal order that has supported the international system and contributed to a broad-based rise in living standards. One could add to this list the adjustments in China as the authorities rein in shadow financing."

Lowe said any miscue by China's policy makers as its economy slowed could "hurt us a lot." That is because over the past two decades, China has become by far Australian capitalism's largest export market.

The switch back to what the financial media calls an "accommodating" monetary policy is also dictated by the insatiable demands of the financial elites. Amid the growing global volatility, they want a prolongation of the regime of cheap money and injection of billions of dollars that has kept money markets worldwide afloat since the 2008 financial meltdown.

"The spin across the central banking community has been incredibly dovish tilts, incredibly quickly," Charlie Jamieson of $2 billion bond fund JCB told the *Australian Financial Review*. "There is a huge shift in that community because they foresee something that worries them."

Domestically, the RBA's quarterly statement of monetary policy revealed it was becoming increasingly worried about the impact of plunging house prices on already flagging consumer spending. "In the context of high household debt, currently weak income growth and falling house prices, the resilience of consumption growth is a key uncertainty for the overall outlook," the bank said.

Some corporate analysts forecast that the cash rate would be slashed to a new all-time low of 1 percent by next year, while warning that this might not have the wanted effect of stimulating the economy.

That fear is connected to the fact that real estate prices have fallen by nearly 7 percent over the past year. They are widely predicted to drop by at least another 7 percent this year, spearheaded by bigger falls in Sydney and Melbourne, the two largest cities. This has ended a property bubble that propped up consumer spending and much of the economy, despite falling real wages, after the mining boom imploded in 2012.

House prices soared up to 60 to 70 percent between 2012 and 2017, allowing people to borrow extra money against their home values. As a result, household debt has risen to about 200 percent of annual household income, one of the highest rates in the world.

The RBA noted a sharp decline in building approvals. It said developers had told them that it had become difficult to finance apartment projects and attract sufficient pre-sales to proceed. "Dwelling investment could therefore tail off sooner and faster than earlier projected."

UBS economists said that based on analysis of job

advertisements and historical data, 50,000 construction jobs could be lost. “Given the recent collapse in building approvals, we believe there is still downside risk,” UBS noted.

The RBA cut its predictions of economic growth and wages growth over the next two years, effectively undercutting the Liberal-National Coalition government’s plans to announce a return to a budget surplus in a pre-election budget on April 2. The bank reduced its gross domestic product outlook for 2019 from 3.3 percent to 3 percent.

This week saw further indicators of an accelerating bust:

• Loans to housing investors dropped by 4.6 percent to a seven-year low of $4.9 billion in December, down 42 percent from the December 2016 peak of $8.5 billion. Owner-occupiers also felt the pressure, with their loans falling 6.4 percent month on month to $12.5 billion, the lowest level since early 2015.

• One of the country’s biggest housing developers, AVJennings, revealed a 90 percent plunge in profits for the six months to December, to $1.42 million from $15.48 million in the year-earlier period. The company, majority-owned by Singaporean developer SC Global, blamed “extreme media coverage” of the housing market slide, alongside a credit squeeze by the banks due to the fallout from a royal commission inquiry into their predatory practices.

• New car sales fell by 7.4 percent in January compared to the same month a year earlier, to 81,994, adding to a lengthening list of poor household spending indicators. Retail sales in December, usually a peak pre-Christmas period, fell by 0.4 percent on the previous month.

Household spending accounts for some 60 percent of the national economy, so these results are ominous. Falling consumer spending also points to the potentially explosive cumulative affect of declining real wages and household incomes since 2012.

According to calculations by the *Guardian’s* Greg Jericho, in real terms the average compensation per employee has declined since 2012 from just above $20,000 to under $19,500. That is primarily the product of the destruction of many thousands of full-time jobs, combined with harsher welfare laws, pushing workers into low-paid and insecure casual employment.

While joblessness officially is relatively low, at 5 percent, this masks the growth of under-employment and widening social inequality. Last year, corporate profits grew by around 20 percent, while the average compensation per employee rose by just 1.2 percent, well below the official inflation rate of 1.9 percent.

Another set of calculations, by former public servant David Plunkett, shows that tax and welfare changes have intensified the inequality since 2012, during the dying days of the last Labor government. Yet both Labor and the Coalition are going to the election committed to further cutting taxes for companies and high-income recipients.

During the lead-up to the election, which is expected to take place in May, the Labor Party opposition and its trade union partners are anxiously trying to keep a lid on the seething discontent in the working class. They are seeking to revive illusions that a Labor government would take some action to lessen the yawning income and wealth gap.

Globally, however, governments are being shaken by the resurgence of the class struggle after decades of suppression of workers’ struggles, particularly by the unions. Whether or not there is a social explosion in Australia before the election, the widening social divide makes immense conflicts inevitable.

Whichever party heads the next government, it will be intent on imposing the burden of the gathering slump on working class households via yet another wave of austerity measures and permanent job-shedding.