

Australia's central bank slashes growth forecasts

Mike Head
15 May 2019

Last Friday, the Reserve Bank of Australia (RBA), the country's central bank, made one of the world's largest and most rapid downgrades in economic forecasts, effectively shredding the bogus election promises being made by the Coalition government and the Labor Party.

The RBA slashed its gross domestic product (GDP) growth prediction for the current financial year to just 1.75 percent, dramatically lower than its previous forecast of 2.5 percent, issued only three months ago.

The revised figure is also significantly lower than the government's April 2 budget prediction of 2.25 percent—the figure on which both the ruling Liberal-National Coalition and opposition Labor Party have based their limited pledges to increase spending on healthcare and education.

Regardless of whether Labor or the Coalition wins office, the next government will be one of even more severe austerity. Their election slogans of “jobs and growth” or a “fair go” will be abandoned quickly.

The RBA downgrade indicates an economy already in recession, with GDP falling per head of population. Plunging house prices, on top of six years of falling real wages, are starting to cut household spending, and that is before the economic fallout from the intensifying US-China trade war.

On budget night, the population was told that household consumption—which accounts for 60 percent of the economy—would grow at 2.25 percent. The RBA reduced that sharply to 1.6 percent. Instead of dwelling investment growing at 0.5 percent, the RBA forecast an ominous 6 percent decline.

The RBA's Statement on Monetary Policy was full of uncertainty. It noted that “trade tensions remain a downside risk to the global outlook.” This was a gross under-statement. Any US-China trade war has immense

consequences for Australian capitalism, which relies heavily both on US investment and on raw material exports to China and other China-dependent Asian economies.

No sooner had the RBA published its revised forecasts than the Trump administration announced it would increase US tariffs on \$US200 billion of Chinese goods to 25 percent from 10 percent, and said tariffs on the remaining \$325 billion worth of Chinese imports could be implemented as soon as July.

Domestically too, the RBA voiced nervousness. “[D]welling investment is still expected to decline significantly over the next couple of years. Pre-sales activity has been weak, so further downward revisions to the outlook are possible.”

This was the “key source of uncertainty” for the local economy. In other words, the RBA has little confidence in its own forecasts, which it has downgraded repeatedly in recent years.

A six-year real estate bubble, which kept parts of the economy afloat after the mining boom imploded in 2012, has burst. House prices are down almost 10 percent across the country, with falls of more than 14 percent in Sydney and 11 percent in Melbourne, the two biggest cities. This reversal has begun leading to lower rates of construction, retail sales and car sales.

Despite Labor and the Coalition vowing that their policies will lift wages, the RBA indicated that no improvement was likely soon. Instead, “weak growth in household income poses a key risk to the outlook for household consumption, especially in the context of falling housing prices and the need for many households to service high levels of debt.”

The bank also revealed anxiety on the rate of joblessness. “There continues to be uncertainty about how the unemployment rate will evolve,” it said.

Officially, unemployment remains just above 5 percent but that vastly underestimates the real situation, especially in working class areas. In Brisbane's southwestern suburbs, for example, the rate is as high as 26 percent.

According to the Australian Bureau of Statistics, jobs growth in 2018 was almost entirely driven by the public sector, with private sector employment contracting through the year.

Both Prime Minister Scott Morrison and Labor leader Bill Shorten tried to downplay the RBA shock, aided by a complicit corporate media, which gave little coverage to the news.

Morrison falsely claimed that the bank's downgrade was consistent with his government predictions. Shorten declared that the RBA had "made the case indirectly for voting Labor," but Labor's election pledges are based on precisely the same inflated budget forecasts.

The RBA's downgrade factored in two official interest rate cuts before the end of the year. These would take the rate down to 1 percent from an already record low of 1.5 percent, in a desperate bid to stimulate borrowing and spending.

However, interest rate cuts may have little effect because household debt is at record levels, averaging nearly double disposable income, one of the highest ratios in the world. Moreover, the banks have cut back on mortgage lending, because repayment arrears and defaults are already rising.

Just three days before its statement, the RBA decided not to cut rates on the eve of the May 18 election, because that would have openly contradicted the prospect of improved conditions that the establishment parties have been promising throughout the election campaign.

The RBA's bombshell was the second economic shock in two weeks. The official headline inflation rate was zero during the March quarter, another indicator of a rapidly stalling economy. Financial commentators expressed fears of a deflationary spiral, in which consumers delay purchases in the hope of lower prices.

As the Socialist Equality Party (SEP) explained in its election statement, this election is dominated by lies and diversions to a greater extent than ever before.

When Labor leader Shorten released his party's election promise costings last Friday, he claimed to

have achieved a "trifecta"—"fairer taxes," extra spending on health, education and childcare, and bigger budget surpluses.

Thus, Shorten again sought to appease angry and disaffected working class voters, while reassuring big business that a Labor government would adhere to the demands of the financial markets to restrict social spending in order to produce budget surpluses.

This fraud is being exposed even before election day, confirming the analysis made by the SEP in its election statement: The Australian economy is slowing rapidly and heading for a deep recession that will drive working people into explosive struggles, like the working class strikes and protests already erupting around the world.

Authorised by James Cogan for the Socialist Equality Party, Suite 906, 185 Elizabeth Street, Sydney, NSW, 2000.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact