Australia: Worst economic slowdown since global financial crisis

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Among the many lies told throughout the recent Australian election campaign was that the economy was headed for a period of recovering, and then accelerating, growth. This fraud underpinned all the bogus spending promises, as limited as they were, of both the ruling Liberal-National Coalition and the opposition Labor Party.

As the Socialist Equality Party warned during the election, this charade has been quickly shattered. Mounting concerns about the fallout from the worsening trade and economic war launched by the US against China are compounding the impact of falling house prices, plunging construction work and declining real wages.

Gross domestic product (GDP) figures released last week showed that economic growth was just 0.4 percent in the three months ended March. The resulting 1.8 percent annual expansion was the weakest since the 2008-09 global financial crisis, and just half the post-World War II average of 3.5 percent.

For the first time since the 1982 recession, per capita GDP—economic output per person—fell for the third consecutive quarter, confirming that a per capita downturn has already begun.

Financial industry analysts are warning of the possibility of the first outright recession for nearly 30 years. AMP economist Shane Oliver revised up his probability of a recession in 2020 from 15 percent to 25 percent.

The GDP results were far lower than even the Reserve Bank of Australia's (RBA) downgraded forecast of 1.7 percent for the 12 months to June 30, let alone the 2.75 percent growth forecast in the government's recent budget and its pre-election economic and fiscal outlook.

Because of the slump, rising unemployment and near-zero inflation, the RBA cut official interest rates by 25 points to an all-time low of 1.25 percent last Tuesday. These are uncharted waters, well below the "emergency" 3 percent level set in 2009 amid the global meltdown.

Because of the speed of the slide toward recession, the finance markets are betting on further rate cuts. Trading on rates futures imply a 50-50 chance of another cut to 1 percent next month. A majority of 44 economists polled by Reuters predicted a second cut in August, with some also expecting a third move.

In a speech last Tuesday, RBA Governor Philip Lowe said it was "not unreasonable" to expect a cash rate of 1 percent by the end of the year, with "the main downside risk being the international trade disputes, which have intensified recently."

Lowe also referred to the "main domestic uncertainty" in his statement the next day announcing the rate cut. He referred to "the outlook for household consumption" being "affected by a protracted period of low-income growth and declining housing prices."

The GDP figures revealed that household spending climbed only 1.7 percent over the year, barely more than population growth. This reflects nine years of declining income, especially for working class people. Overall, average household disposable income remains lower in real terms than in 2010.

Consumption of "discretionary" items, such as restaurant meals and entertainment, fell in the March quarter, while consumption of essentials, like electricity, health services and rent, continued to climb.

Years of stagnating or falling real wages have sent the average household debt to income ratio to a record high of near 200 percent, creating financial stresses now intensified by falling home prices. Since a six-year property bubble began bursting in 2017, house prices have fallen 14.9 percent in Sydney and 11.1 percent in Melbourne, the two biggest cities.

The downturn in the housing market is also leading to falling construction. In the March quarter, it declined 2.5 percent, and was 3.1 percent lower over the year, a far cry from 10 percent plus annual growth rates achieved as recently as three years ago.

The residential construction slump is set to deepen, with dwelling approvals in April down 24 percent on a year ago.

Recession has been avoided, so far, by increased government infrastructure spending, primarily on business-related projects, and higher prices for iron ore exports, due to global supply disruptions, including a burst dam disaster in Brazil.

Government spending accounted for nearly 80 percent of GDP growth over the past 12 months.

The latest signs of recession followed a shock inflation result of zero during the March quarter. This indicated a rapidly stalling economy and pushed the annual rate down from 1.8 percent to 1.3 percent. Financial commentators expressed fears of a deflationary spiral, in which heavily-indebted consumers delay purchases in the hope of waiting for lower prices.

Adding to the slump are major job cuts, including an estimated 50,000 jobs lost so far in the construction industry.

The former government-owned telecom giant Telstra announced last week it would eliminate the jobs of 10,000 contract workers over the next two years, after having laid off 5,000 contractors last year. Telstra is also axing the jobs of 8,000 direct employees—a quarter of its workforce—by the end of 2022. It is currently cutting 6,000 direct jobs over the next several months.

The Roy Morgan survey company reported that unemployment in May was at 10.3 percent, 0.5 percent higher than the same period last year, with 166,000 fewer people employed than 12 months ago.

This estimate is much higher than the current official Australian Bureau of Statistics rate for April of 5.2 percent. In addition, according to Roy Morgan, 1,223,000 workers (9.2 percent of the workforce) are now under-employed, that is seeking more work.

That made a total of nearly 2.6 million workers either unemployed or underemployed, equal to 19.5 percent of the workforce.

There are indications of worse to come. Job advertisements plummeted in May, recording the largest monthly decline since just after the 2008-9 crisis. According to ANZ Bank’s job ads series, new postings fell by 8.4 percent in May after seasonal adjustments. That left total ads down 14.9 percent over 12 months, the sharpest annual decline since 2013.

The super-rich, however, have enjoyed spectacular increases in wealth during the same year, at the expense of the working class. The 200 individuals or families on the *Australian Financial Review* Rich List boosted their collective wealth by 21 percent to $341.8 billion, as real wages continued to stagnate.