Household incomes dropping in Australia as economy slides toward recession

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With wages stagnating, and 2.5 million workers either jobless or “under-employed,” working class living standards are continuing a seven-year fall in Australia as an economic slump deepens.

Official figures released last week show that average household incomes per capita decreased in real terms by more than 1 percent over the past year, taking them to the post-global financial crisis level of 2010. Even these results camouflage the severity of the impact on the working class, because the “average” figure is distorted upward by the soaring incomes of the wealthiest households.

Treasurer Josh Frydenberg sought to hide the reality. “Living standards continue to increase with real net disposable income per capita rising 1 percent to be 2.7 percent higher through the year,” he claimed. His carefully-selected statistic, however, includes corporate profits as well as wages. During the June quarter alone, mining sector profits soared by 10.6 percent.

Since barely surviving the May 18 federal election, the Liberal-National government has tried to maintain the myth of a strong economy, which the opposition Labor Party also peddled throughout the election campaign.

The truth is that workers and their families are bearing the brunt of a skid toward recession. Even though the Reserve Bank has already cut official interest rates to a record low of 1 percent, economic production grew at just 0.5 percent during the final three months of the 2019 financial year, leaving annual growth at 1.4 percent.

Frydenberg and Prime Minister Scott Morrison actually hailed the low growth rates as a success, because Britain, Germany and Singapore contracted in the June quarter. However, Australian capitalism is extremely vulnerable to the global recessionary trend, which is being exacerbated by the Trump administration’s aggressive “America First” offensive, including its worsening tariff war with China.

The main immediate factors in Australia’s June quarter results were depressed consumer spending and a sharp decline in residential construction following the implosion of a six-year property bubble that filled the pockets of the developers and real estate operators.

Car sales, a barometer of living standards, as well as economic trends, fell for the 17th month in a row in August. Sales were down 10 percent on the same month last year, which in turn was down on 2017. Year-to-date sales of 786,294 are down 8 percent on 2018.

Corporate and income tax cuts that began on July 1 have failed to halt the slide in consumer spending, especially for supposed “discretionary” goods and services.

If not for higher iron ore export prices and a 6.2 percent rise in government spending, mainly on business-related infrastructure projects, the economy would have contracted by 0.5 percent over the past year. In per capita terms, gross domestic product dropped over the 12 months, for the first time since the 2008-09 crash.

Workers have been straitjacketed for years by the trade unions, which have suppressed strikes and imposed “enterprise bargaining” deals with employers. As a result, the share of national income going to wages has fallen under 52 percent, its lowest level since 1964.

Domestic savings levels are dropping because households cannot make ends meet. There was a further decline in the household saving ratio in the June quarter, falling to 2.3 percent. The fall has been dramatic in the past few years, with the ratio having peaked at more than 8 percent in 2015.

So sharp is the economic downturn that the government is applying unprecedented pressure on the nominally independent Reserve Bank to further slash interest rates. Several banks last week predicted that the Reserve Bank would have to cut the rate to 0.25 percent by next May, taking it into completely unchartered waters.

Rifts have erupted in the ruling class. Signalling what the *Australian Financial Review* called a "deteriorating relationship with Reserve Bank governor Philip Lowe," Treasurer Frydenberg last week publicly criticised the bank. Frydenberg effectively accused the bank of failing to cut interest rates quickly enough, and foreshadowed a new monetary policy agreement to force it to do so.

This pressure may not be as explicit as that being applied by President Donald Trump to the US Federal Reserve, but the thrust is the same: provide the financial elite with ever-cheaper access to cash in order to boost profits, while falsely claiming that this will generate jobs and better wages.

Perversely, a tailings dam collapse at a Vale iron ore mine in Brazil that killed 300 people during January triggered a bonanza for Australian-based mining operators, such as BHP, Rio Tinto, Gina Rinehart and Twiggy Forrest. Ore prices jumped from $72 a tonne to $122. They have since slid to $91, but that it still much higher than the $55 figure forecast by the federal Treasury for the current financial year. Every $10 over the forecast price means $3.7 billion in royalty revenue, and this may permit the government to announce a budget surplus for 2018-19 in spite of the economic crisis.

This situation could rapidly reverse, however, as Vale production comes back on line, and demand from Chinese steel mills falls. Iron prices fell by 27 percent in August, the most since October 2011.

Because of the iron ore price spike, the global turbulence and downturn associated with the economic war launched by the US against China have not yet hit home. But the marked slowing of the Chinese economy will inevitably cut mining exports, intensifying the downturn and the attacks on workers' jobs, wages and conditions, setting the scene for explosive class conflicts.