Major write down of Australian growth forecast as global contradictions intensify

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At its semi-annual meeting last week, the International Monetary Fund cut its forecast for global growth, pointing to a synchronised slowdown. One of the significant downward revisions among more developed economies was the estimate for Australia.

The IMF predicted growth in the Australian economy for 2019 would be just 1.7 percent. As a number of reports noted, this was below that for the Greek economy, which passed through several years of depression. The IMF cut 0.4 percentage points from its previous forecast for this year, made in April, and reduced its estimate for 2020 by 0.5 percentage points.

The speed of the decline is reflected in the fact that just 12 months ago, when the IMF was still holding out the prospect for a revival of the global economy from the effects of the 2008-2009 financial crisis, its forecast for Australian growth in 2019 was 2.8 percent.

The Liberal-National government's response to the IMF forecast could be summed up in the phrase "nothing to see here."

Treasurer Josh Frydenberg said the IMF report had pointed to the strong headwinds facing the global economy, but Australia, unlike Germany, the UK and Singapore, had not experienced negative growth in the June quarter. It remained "resilient and continues to grow" due to government tax cuts and infrastructure spending.

The Reserve Bank of Australia has contradicted this claim. According to the minutes of its October meeting, the RBA said there "had not yet been evidence of a pick-up in household spending following recent interest rate and tax cuts." Instead, "consistent with the low growth in household disposable income," household consumption had grown by only 1.4 percent to the end of June.

The RBA noted that the residential construction sector had "contracted further and this was expected to continue for some time" and "the decline in dwelling investment in the June quarter was greater than had been expected a few months earlier."

This was a significant observation because residential construction, both for houses and apartment complexes, is one of the key drivers of the Australian economy. Beyond the headline figures, other indicators point to a significant downturn.

Writing in the *Guardian* on Tuesday, economics commentator Greg Jericho countered suggestions, including from RBA governor Philip Lowe, that the economy would experience an upturn next year. Such remarks, he said, were motivated by a desire not to "scare the horses" because predictions of a recession tended to make such a thing happen.

"But the reality is the economy is already in a major downturn, because most of the growth is coming from the non-market sectors of public administration, education and healthcare," Jericho wrote.

The non-market sector was growing at 4.9 percent a year, while the market sector was achieving a "piddling 0.8 percent growth"—the worst annual result since March 1992, following the early-1990s recession.

The "poor performance" in the market sectors was widespread, with only mining recording a strong expansion. This had little impact on jobs and wages because, unlike the mining boom of the early 2000s, growth was now concentrated in increased exports rather than investment.

Excluding mining, market sector growth was only 0.3 percent—lower than recorded during the 2008-09 global financial crisis. At more than 80 percent of the Australian economy, the market sector could be expected to contribute 80 percent of growth, but it accounted for only 44 percent. If mining were

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excluded, this proportion fell to just 15 percent.

Amid the warnings of a pronounced global slowdown, the low growth has led to calls from economic commentators for the government to abandon what they call its fixation on achieving a budget surplus this financial year. This is in line with calls from the IMF for more fiscal stimulus measures.

The low-interest rate policies of the world's central banks, including the RBA, and the program of quantitative easing—the injection of money into financial markets—is having an increasingly diminished impact on the real economy. The IMF said "available fiscal space" should be used to provide stimulus measures, including taking advantage of very low interest rates to borrow money to finance infrastructure projects.

Immediately upon his return from the IMF meeting, however, Frydenberg indicated he was having none of it. Writing in the *Australian* on Tuesday he said the economy continued to perform "comparatively well" and the government would not "squander" the surplus.

Such comments are certain to bring further criticism from economic commentators, reflecting the interests of significant sections of business, particularly in retail. On Monday, *Sydney Morning Herald* columnist Ross Gittins said the government's "surplus obsession" was hurting the economy.

Gittins cited previous comments by Frydenberg that achieving a budget surplus was not a "vanity exercise" because "a strong budget position helps build the resilience of the economy for external shocks." Gittins commented: "Translation: we can't afford to spend money staving off a recession because we'll need to spend that money once we *are* in recession."

Gittins concluded the government would eventually "panic" and unleash stimulatory measures "but they'll come too late to stop confidence unravelling" as businesses laid off employees.

Even if the government's critics had their demands for increased fiscal stimulus addressed, this would not provide a buffer against the far more powerful forces unleashed by the ongoing slump in the world economy and mounting contradictions in the global financial system.

The former governor of the Bank of England, Mervyn King, has warned that present policies, based on the outlay of cheap money by the world's central banks, while "pretending that we have made the banking system safe," meant that "we are sleepwalking" to another financial crisis.

Since the 2008-09 breakdown, two fictions have been promoted regarding the ability of the Australian economy to weather that storm without a recession.

The first is that sound regulatory mechanisms protected the Australian banks from the financial turbulence that hit other parts of the world. In fact, during the first days of October 2008, the Australian banks were faced with a major liquidity crisis because the supply of funds from international money markets, on which they depend, suddenly dried up. Supply only resumed when the Rudd government stepped in with a commitment to back all their debts.

The second myth is that Labor government stimulus measures staved off a recession. In fact, the Australian economy only kept its head above water because a massive stimulus package initiated by the Chinese government boosted mining investments and exports.

Today, Chinese growth is falling and the Beijing government, confronted with mounting debt problems, is unwilling and unable to unleash the vast expansion of credit of a decade ago.

A lesson can be drawn from the upsurge of social opposition in Chile. Barely a week ago, it was touted as an island of "stability" amid the economic, financial and political turbulence gripping the rest of South America. Now tens of thousands of people are on Chile's streets in response to years of escalating social inequality.

The same global economic forces are operating upon Australia, and they will lead to similar social and political consequences.

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