Australian economy remains in slump as trade tensions mount

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Data released last week underscores how vulnerable the Australian economy, like many around the world, is to the fallout from the aggressive economic war launched by Washington against its rivals, particularly China.

Largely mirroring international trends, Australia is mired in slump, despite record low interest rates and large tax handouts, mostly to companies and the wealthy. The impact is hitting working class households the hardest. Corporate profits and share prices have soared in 2019, but at the expense of falling real wages and rising unemployment and under-employment.

Combined with widespread nervousness over the global instability, this produced the worst retail and car sales, and other household consumption statistics, since the 2008-09 global financial crisis. Business investment also fell sharply in the September quarter.

Desperate to provide "good news," many media outlets, and the Liberal-National government, claimed that the results confirmed the Reserve Bank of Australia's (RBA) proclamation of a "gentle turning point" after months of recessionary conditions.

However, the gross domestic product (GDP) rose only 0.4 percent in the quarter, an annual rate of 1.6 percent. The three-month result was down from 0.6 percent in the June quarter, and 0.5 percent in the March quarter. The September quarter result was well short of the government's budget forecasts, which were 2.25 percent for 2018-19 and 2.75 percent for 2019-20.

The RBA has cut interest rates three times in the months after the May federal election, to a record low of 0.75 percent, and the government paid out nearly $5 billion in income tax rebates. Yet consumer spending rose just 0.1 percent, the poorest result since the 2008-09 meltdown.

Reflecting the nervous mood, spending shrank 0.3 percent on discretionary items such as new cars, clothing and footwear, and cigarettes. Any growth was concentrated on essentials, led by health and rent.

Separately calculated retail figures showed that in the three months to September the volume of goods and services bought fell 0.1 percent. That trend continued in October, with clothing, home wares and department stores sales falling. The retail sector had already suffered its worst 12-month period since the 1991 recession.

In another sign of consumer hardship, sales of new cars fell 9.8 percent in November, the 20th monthly decline in a row, according to the Federal Chamber of Automotive Industries.

Suffering one of the highest levels of household debt in the world—nearly twice as much debt as income on average—many consumers evidently decided to try to reduce their indebtedness.

Over the year to September, inflation-adjusted spending grew by a mere 1.2 percent, also the least since the 2008-09 financial crisis. Australia's population grew by 1.6 percent in that time, meaning the volume of goods and services bought per person went backward.

A significant economic indicator was a 2.1 percent drop in business investment during the September quarter, with mining investment tumbling 7.8 percent. Non-mining investment rose 1.2 percent, but was still stuck around 25-year lows. These trends point to further contraction ahead. Profits are being poured into the stock market and other speculative operations, not production and research and development.

In the anxious words of the *Australian Financial Review*, stock exchange indexes have been volatile, "amid fears that US President Donald Trump could hit every second nation with tariffs—China of course, but now Argentina and Brazil and possibly everyone in NATO." Even so, the newspaper warned, the benchmark ASX 200 index remained about 20 per cent higher for the year to date—way out of line with the underlying slump.

"Private sector activity—consumption and business investment—is at recession levels," the financial newspaper said. Only mining exports, population growth and government spending were keeping the economy afloat.

Government spending grew 0.9 percent in the quarter and 6 percent over the year, mostly on infrastructure projects demanded by big business. Despite chronic underfunding, government outlays also rose on health, disability and aged care costs.

The GDP figures strengthened the betting on the financial markets that the RBA will be forced to cut interest rates again at its first meeting for 2020, in February. Most corporate economists reportedly expect another cut will follow in the ensuing months, taking official rates down to 0.25 percent, far below the "emergency" 3 percent level reached in 2009.

Company profits were up 2.2 percent in the quarter and 12.7 percent over the year. Average wage and superannuation payments grew at about half those rates—1.2 percent and 5.1 percent—and even that statistic covers over the wage-cutting that is affecting low-paid workers in insecure jobs.

The only discernible effect of the record low interest rates has been to fuel a new rise in house prices in the two most populous cities, Sydney and Melbourne, partially reversing the collapse of the housing bubble that prevented a slide into recession between 2012 and 2018.

At the same time, insufficient housing is being built for a growing population. Housing investment was down 1.7 percent over the September quarter and 9.6 percent over the year. Rising prices has made home ownership impossible for many young people, and put upward pressure on rents.

There was another glaring problem. Even though profits and stock prices rose, GDP per hour worked, which is a measure of productivity, fell 0.2 percent during the September quarter and 0.2 percent over the year—another result of the lack of productive investment.

Extreme weather conditions, bound up with climate change, also had an impact. Drought-affected farm production fell 2.1 percent over the quarter and 6.1 percent over the year.

All this means that the jobs situation is likely to deteriorate. Employment fell by 19,000 jobs in October, taking the official jobless rate to 5.3 percent, and the underemployment rate to 8.5 per cent. As measured by the Roy Morgan polling company, nearly 1.1 million Australians were unemployed (7.8 percent) with an additional 1.2 million (8.9 percent) under-employed.

While the government boasts of "creating" 1.5 million jobs since 2013, this simply reflects population growth, plus a rise in workforce participation as older workers postpone retirement because of mortgage debts, low superannuation balances and poor returns on any savings due to ultra-low interest rates.

Taken as a whole, these results mean that Prime Minister Scott Morrison's government is under increasing pressure from the financial elite to cut government spending, to avert a budget deficit, and mount an offensive against workers' conditions in order to drive up the rate of exploitation.

Last month, credit ratings' agency S&P Global told the government that any increased spending could threaten the country's triple A rating. "As the official cash rate in Australia moves toward zero there have been growing calls for the government to increase fiscal stimulus, including infrastructure spending, to stimulate and support the slowing economy," it said, before warning: "While spending initiatives are likely to support the economy, they're also likely to weaken Australia's fiscal flexibility to respond to future unforeseen economic shocks."