Australian economy hit by rapid fall in iron ore price and Delta spread

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The state of the Australian economy has been thrown into the spotlight as a result of a dramatic fall in iron ore prices and a surge in Delta variant coronavirus infections in its two most populous states, New South Wales and Victoria.

In March, the Australian economy passed the level it had reached prior to pandemic, amid claims that it weathered the economic storm created by the arrival of COVID-19 in 2020. But it has been all downhill since then.

The most significant indication of the mounting economic problems now unfolding is the dramatic fall in the price of iron ore. This commodity is Australia's largest export earner and a key component of the federal government budget because of the tax revenue it obtains from iron ore sales.

The iron ore price has crashed by 40 percent in the past month, falling from its peak of $233 a tonne to a level of around $133.

This is the result of cutbacks in Chinese steel production. China accounts for about 75 percent of the world's iron ore inputs, with Australia its chief supplier.

Policymakers in Beijing have said they want to keep the production of steel in 2021 to the same level as in 2020, in part because of the need to reduce emissions.

According to comments to news.com.au by Vivek Dhar, the Commonwealth Bank's mining and energy economist, the achievement of this goal requires a reduction of steel output at an annualised rate of 12.2 percent in the period from August to December. In July, China's crude steel production contracted 8.4 percent on an annual basis, "signalling that output cuts are not just being talked about, but happening," he said.

Steel production will also be hit by Chinese government efforts to rein in debt, particularly for infrastructure and property development. Dhar pointed out that demand for steel from these areas had weakened. This reaffirmed that "market anxieties that China's steel output cuts for the remainder of the year are inevitable. The infrastructure and property sectors account for 20–25 percent and 25–30 percent respectively."

The effect on the Australian economy and the federal government's budget is expressed in the fact that, according to estimates, for every $US10 ($A14) fall in the price of iron ore Australia's gross domestic product (GDP) in money terms falls by $A6.5 billion and government tax receipts by $A1.3 billion.

Commenting on the iron ore price crash in a client note, Morgan Stanley wrote: "A correction of the high iron-ore price was widely anticipated by us, but, despite iron ore's volatile boom-bust history, we are somewhat surprised by how fast this is happening."

The Australian economy has also been hit by a sharp decline in service industry exports, especially in the education sector where the flow of international students into the country's universities has been cut off due to the pandemic.

According to the latest data, Australia's exports of services have fallen back to 2006 levels when the economy was around two-thirds the size it is now. Overall exports are down by 10 percent with the contribution of exports cutting 1.5 percentage points from GDP growth since the start of 2020.

Depending on what the quarterly figures for GDP growth for the June quarter show—they are to be released next week—the economy is heading for a technical recession, defined as two quarters of negative growth. This is because, according to the treasurer Josh Frydenberg, the economy is set to contract by at least 2 percent in the September quarter as a result of the renewed upsurge of the pandemic.

Its impact has already been seen in the employment numbers. The official unemployment rate for July was 4.6 percent, the lowest since 2008. But rather than indicating economic health this was the result of tens of thousands of people withdrawing from the labour market. When the official figures are adjusted for the effects of the pandemic the level of unemployment is calculated to be at least 6 percent.

However, the official Bureau of Statistics jobless levels are notoriously understated as they count as employed those who have worked for just one hour a week. According to the Roy Morgan survey, the real level of unemployment is 9.7 percent, with the underemployment rate, based on people who want more hours, at 9.1 percent.

In an analysis of the employment data, *Guardian* economic columnist Greg Jericho wrote: “Hours worked in New South Wales in July fell 7 percent—some 40.5 million fewer hours in total, the third biggest drop in the history of the state. There was also a 0.9 percent drop in the number of people employed in NSW and a massive 28 percent increase in the number of people underemployed.”

The picture is the same on the wages front. Wages grew by only 0.4 percent in the June quarter. For these months lockdowns due to the pandemic were largely absent, but the quarter still recorded the lowest wages growth apart from the period of shutdowns in 2020.

Much of the fall is due to the activity of governments, state and federal, Liberal and Labor, with the support of the trade unions. The annual growth of public sector wages is now just 1.3 percent, the lowest ever recorded. When inflation is taken into account, real wages are declining in line with a trend that was apparent well before the pandemic hit.

In the wake of the first wave of the pandemic in 2020 there was much talk about how the Australian economy had bounced back, showing its underlying strength. That is not going to take place in the present situation.

According to a report in the *Australian Financial Review* , economists are now “playing down the chances of a repeat of the strong economic rebound seen when stay-at-home orders were previously lifted, leading to concerns of a cash flow canyon for many small and medium businesses.”

The Council of Small Business Organisations has warned that, without assistance in any post lockdown situation, businesses have to shed staff in order to survive because of reductions in their cash flows.

The rapidly worsening economic situation has immediate political implications. It will provide grist to the mill of governments and business organisations pushing for an end to lockdowns and other public health measures, and the opening of the economy regardless of the impact of the health of workers and their children.

This agenda must be opposed by the working class with a political struggle for a comprehensive program based on science: mass vaccinations combined with the necessary public health measures aimed at the eradication of the virus, together with full compensation for workers and small businesses paid for by making massive inroads into wealth which has been continued to be accumulated by the corporate and financial elites during the pandemic.