

Per capita contraction in Australian economy

Nick Beams
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Australia has now entered a per capita recession, defined as two successive quarters where output per head of population falls, according to data from the Australian Bureau of Statistics released earlier this week.

While the economy grew by 0.4 percent in the June quarter, the same as in the first three months of the year, there was a fall of per capita production by 0.3 percent in each of the two quarters as the population increased by 600,000 over the same period.

Except for the lockdowns earlier in the pandemic, the last time GDP per capita was smaller than it was a year before was during the global financial crisis and prior to that in the recession of the early 1990s.

In real terms, after taking inflation into account, gross domestic product grew at an annual rate of 2.1 percent, down from 2.4 percent in the first quarter with forecasts that it will likely go lower.

Analysis of the data reveals two causes that have slowed the overall growth rate and resulted in the per capita contraction: the impact of the interest rate hikes by the Reserve Bank of Australia over the past 18 months that have been a major hit to households via the increase on mortgage payments, and a slowdown in global growth which is lowering export prices.

So far, the main effect of the interest rate rise has been on homebuyers. Over the past year they have had to pay out \$82.8 billion in mortgage interest payments, double the level of the previous year.

The effect of the interest rate rises was seen most clearly in consumption spending. It rose by only 0.1 percent, down from a 0.3 percent increase in the March quarter. Other data painted the same picture.

The only reason consumption spending increased at all was because of the sharp increase in spending on rent for the quarter, up by 0.5 percent, and energy, up by 2.2 percent.

Discretionary spending, outlays on non-essential

items, fell by 0.5 percent in the June quarter after a previous fall in the first three months. And to pay for necessary items under conditions of the highest inflation in decades, working class households are being forced to dip into their savings.

The household savings ratio, which measures savings as a proportion of disposable income, fell from 3.6 percent to 3.2 percent. This was the lowest level since the global financial crisis of 2008.

Commenting on the data, RBC Capital Markets chief economist Su-Lin Ong pointed to the direct hit taken by households as a result of the RBA interest rate hikes, hailing it as a success.

“This was the largest fall in discretionary consumption since the [September] 2021 lockdown period and indicated that rate hikes are working where they are supposed to: on discretionary demand,” he stated.

Labor government Treasurer Jim Chalmers expressed his satisfaction with the result as workers’ living standards go backwards. He said they showed the economy remained “steady and sturdy in the face of unrelenting pressure.” He remained “optimistic about the future of our economy and our country.”

But as the data shows, there is no such thing as “our economy.” The economy is rent by a class divide with the well-being of the working class declining as Chalmers expresses the hope that corporate wealth and profits will continue to prosper.

Writing in the *Guardian*, economics columnist Greg Jericho made some salient points about the data and what they reveal about overall economic conditions.

He noted that given the population increased by 0.7 percent, the economy should have grown much faster and the increase of only 0.4 percent “reinforces just how weak things are.”

Much of the growth came from increased exports but a lot of this increase resulted from drawing down on

inventories, selling things already in a silo or a warehouse, and not from increased production.

The same situation applied in relation to consumption spending where there was a jump of 6 percent in sales of motor vehicles which the Bureau of Statistics stated was due to “the clearing of quarantine backlogs.”

Without the increase in sales of motor vehicles, consumption spending would have actually fallen.

Jericho noted that real household income per capita was “down some 5.3 percent on where it was a year ago.” Households were struggling because that was “exactly what the Reserve Bank wanted to happen.”

He could have said the Albanese Labor government as well because it has backed all the RBA’s rate rises which have been carried out with the explicit aim of slowing the economy in order to suppress wage demands under conditions of what it continually refers to as a “tight” labour market.

The Labor government-RBA strategy depends for its implementation on the trade union bureaucracy in imposing sub-inflation wage agreements via the Fair Work Commission. It no longer functions in any meaningful sense in the interests of the working class but operates more and more openly as an arm of the state.

The latest GDP data also indicate the decline in living standards so far is only the beginning because of the slowdown in the global economy and the worsening economic outlook for China.

These effects showed up in the export data. Apart from the fall in per capita output, the most significant feature was the fall in the terms of trade—the ratio of export to import prices—which dropped by 7.8 percent over the quarter. This was the biggest decline since the global financial crisis and the fourth largest on record.

Falls in the price of thermal coal and liquified natural gas formed a large part of the terms of trade decline.

Following the release of the data, the central theme of commentary in the financial press was that more had to be done to intensify exploitation and further suppress the living standards of the working class.

The ABS found that productivity growth, output per hours worked, had fallen 2 percent in the June quarter and by 3.5 percent for the year.

The chief economist at the HSBC bank, Paul Bloxham said unit labour costs were growing well in excess of rates consistent with inflation—the implication

being that despite its recent pause, the RBA is not done with interest rate increases.

The chief economist at the UBS bank George Tharenou, was more direct.

“It seems increasingly likely that a material rise in unemployment will be required to get wages income to moderate enough to be consistent with inflation returning to the RBA’s target band of 2 percent to 3 percent within a reasonable timeframe,” he said.

An editorial in the *Australian Financial Review* drew attention to the slowing global economy and worsening terms of trade to focus on the demand for cuts in government spending on social services.

The global slowdown was showing up in the contraction in the nominal or money-value of Australia’s national income in the last quarter. That meant “there’s no spare change to spend on social programs such as the out-of-control NDIS [National Disability Insurance Scheme].”

As it determines its policies in line with the demands of the banks and international finance capital, the disability scheme will not be the only target of the Albanese government.



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