Australian economy on the brink of recession, national accounts show

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Australian economic growth is stagnant and the economy is teetering on the brink of recession, according to the latest national accounts data released by the Australian Bureau of Statistics yesterday.

Growth in the March quarter was just 0.1 percent, falling below the already low expectation of 0.2 percent. Growth for the year was just 1.1 percent, the lowest since the start of the COVID-19 pandemic. Excluding the pandemic, growth in the past year was the lowest in 33 years.

The data also showed that gross domestic product per capita fell 0.4 percent in the March quarter, the fifth consecutive fall, bringing the total decline over the past year to 1.3 percent. It was the first time this has happened since records of per capita growth were first collected in 1973.

This means that, without the effect of population growth, Australia's economy would have been in recession for the past 15 months.

A key factor in the decline is the global escalation in interest rates, including the rate hikes by the Reserve Bank of Australia, part of the so-called fight against inflation waged by central banks around the world.

Labor government treasurer Jim Chalmers said he was not surprised to see the economy barely growing.

"The primary cause of this very weak growth was higher interest rates, combined with moderating but persistent inflation and ongoing global uncertainty," he said, adding that "any growth was welcome in the current domestic and global circumstances."

Chalmers failed to mention that the RBA interest rate rises, which have delivered a hammer blow to home buyers, reducing their disposable income by several hundred dollars a week, have been fully backed by the Labor government. And of course, there was no mention of the fact that one of the reasons the Laborites' so-called cost-of-living measures have been so inadequate is due to the increased spending on the military.

The impact of the RBA's interest rate rises on disposable income and spending is reflected in the data for households paying off mortgages on their homes.

According to calculations by Ben Phillips, an associate professor at the Australian National University, reported in the *Australian*, over the past four years mortgage-paying households have suffered a 26 percent surge in living costs. Most of that rise will have taken place in the past two years, when interest rates began to be lifted from near-zero levels.

A survey conducted by Morgan Stanley, reported in the *Australian Financial Review*, found that, for the first time in its seven-year history, a majority of respondents (52 percent) said financial stress would cause them to reduce their spending. The largest concentration is those aged between 30 and 49—that is, those with young families.

The rise in housing costs, both on mortgages and rent, is impacting heavily on consumption spending.

As *Guardian* economics commentator Greg Jericho noted in an article today, "In the year to March, household spending rose 1.3 percent—around half the pre-pandemic rate. And any growth was mostly on essential items. Spending on discretionary items … rose just 0.1 percent."

The worsening situation produced by interest rate hikes is being compounded by the fall in real wages that has proceeded over years and is continuing. In the March quarter, average wages for each employee rose by 0.6 percent while the cost of goods and services increased by 1 percent.

The cost of labour in real terms fell by 0.7 percent while the profit contribution to the cost of goods rose

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by 8 percent.

Across the board, the data all point in the same direction—a rapidly worsening economic situation for the majority of the population.

Callam Pickering, an economist at jobs site Indeed, said the household savings rate had fallen from 1.6 percent to 0.9 percent in the March quarter and that "household savings is hovering around levels we haven't seen for 15 years."

According to Commonwealth Bank economist Gareth Aird, the rise in house prices is continuing to "materially outstrip" the growth in wages.

"On conventional metrics most housing markets are their least affordable in history," he said.

But this worsening situation is not going to bring any let-up in the assault on the social position of the working class. On the contrary, it will intensify.

The attitude of the ruling classes and their agencies—the Labor government and the RBA—was summed up in a sentence by the economics editor of the AFR, John Kehoe.

After declaring that growth of just 0.1 percent was a "Goldilocks scenario" for Chalmers and the RBA—just enough to avoid recession headlines and cool enough to temper inflation—he continued: "The catastrophists will moan that households are being smashed, but rational economists know that this is the slowdown Australia must have to tame inflation."

The determination to press ahead with the offensive against the working class, which has already produced major cuts in living standards, was articulated by Michele Bullock in remarks to the Senate Economics Committee as the national accounts data were being released.

Bullock began by insisting that if "inflation starts to go up again or it's much stickier than we think [and] we're not getting it down, then we won't hesitate to move and raise interest rates again." With inflation at 3.6 percent, well above the RBA's target range, this is not an idle threat.

Elaborating further and indicating that the next move in interest rates could be up rather than down, Bullock said the focus on weak growth rates paid less attention to the RBA's concerns with the level of demand and that present output was beyond the capacity of the economy to produce it in a low-inflation way.

"We've got weak growth, but we judge that demand is still a bit above the ability of, the capacity of, the economy to supply that," she said.

Bullock did not spell it out, for that would reveal all too clearly the class character of the "rational" policy of the RBA and its team of economists, but the aim of suppressing demand is to drive up unemployment—a policy which Bullock is on the public record as supporting.

According to Treasury secretary Steven Kennedy, speaking to a Senate estimates committee earlier this week, economic growth would be "very weak" in the immediate future but there would be a recovery as household disposable income rose. The forecast has as much validity as previous predictions by the Treasury, going back years, that real wages were going to start to rise, with the data showing they have been in a protracted decline.

Kennedy said that in response to weaker growth, firms have mostly chosen to reduce hours worked "rather than their headcount, which has delayed the expected increase in the unemployment rate."

But that increase is coming and, as Bullock's remarks show, it is the aim of official policy.

In confronting this assault, the only viable program for the working class is the fight for a socialist perspective: the ending of the subordination of the economy and the wealth produced by workers to the dictates of the profit system.

That perspective is always opposed by a barrage of claims from media pundits and bourgeois economists that the capitalist market system is the only viable, and only possible, form of socio-economic organisation.

But the utter irrationality of this economic order and its "magic of the market" myth is illustrated by one striking component of the national accounts data.

Under conditions where there is a growing need for housing to meet some of the worst conditions in the post-war period, construction was characterised by the chief executive of the Master Builders Association Denita Wawn as the "weakest link" as it declined by 2.6 percent.

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