Australian economy heading into recession

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The Australian national accounts figures released yesterday show the economy is as close to a recession as it can be without being officially designated as having reached that point.

In fact, if output per head of population is taken as a more accurate measure of the state of the economy, it has been in a recession for some time, because this figure showed its sixth consecutive quarterly decline.

The Australian Bureau of Statistics (ABS) said the economy grew by just 0.2 percent in the June quarter following a 0.1 percent rise in the three months to the end of March. GDP per capita was down by 0.4 percent.

Annual economic growth fell to 1 percent in June, compared to 1.3 percent in March. Outside of the onset of the COVID pandemic, this is the lowest growth rate since the recession of the early 1990s, and well below the average of 2.7 percent over the past 20 years.

Household spending rose by just 0.5 percent in the 12 months to June, well below the average annual growth of 2.5 percent in the decade before the pandemic.

Other figures released earlier this week by the ABS show the downward trend. Annual growth in private sector wages was 5.3 percent, down from the figure of 6.6 percent in March. It was the lowest result in two years.

But this figure by no means captures the real decline in workers' living standards, which have been hit by the escalation of mortgage payments. More than 80 percent of home buyers are on variable interest rates leading to cuts in disposable income of anywhere between $300 and $500 a week.

According to analysis of figures prepared by the Organisation for Economic Co-operation and Development (OECD), Australian households have experienced the largest cut in disposable income of any of the countries in the grouping of major economies.

This is reflected in the hospitality sector—taking the family out for a meal is one of the first items to be cut when incomes go down—where consumer spending fell by 3.1 percent in the 12 months to June.

Retail sales volumes fell by 0.3 percent in the three months to June, according to ABS data.

The release of the latest data was preceded by a war of words following the declaration by Labor treasurer Jim Chalmers that interest rate hikes by the Reserve Bank of Australia (RBA) were "smashing" the economy.

Responding to estimates by economists that growth would come in at a very low figure—chief National Australia Bank economist Alan Oster said there was a "serious chance" the number could be negative and there was "no momentum" in the economy—Chalmers tried to get on the front foot.

He declared: "With all this global uncertainty on top of the impact of rate rises, which are smashing the economy, it would be no surprise at all if the national accounts … show growth is soft and subdued."

This set off a hail of denunciations of Chalmers for attacking the RBA, something he would not have expected because he had said similar things previously.

In June, he said rate rises were "hammering the economy" and later that month that they were "hammering consumption." At the beginning of July, he said discretionary spending had been "absolutely hammered by higher interest rates."

Backing his treasurer last Monday, Prime Minister Anthony Albanese said: "The treasurer's comments were nothing new."

The reason for the outrage on this occasion is the shift in the interest rate landscape following indications by the chairman of the US Federal Reserve Jerome Powell at the Jackson Hole, Wyoming, conclave of central banks last month that a rate cut is on the table at its meeting later this month.

The representatives and spokesmen of finance capital in Australia want the RBA to follow suit so they can get their hands on cheaper money.

But they are concerned this will not take place because RBA governor Michele Bullock has said there is no prospect of a cut this year, as demand is still too high relative to supply and this will continue to push up inflation. Bullock even indicated that at its last meeting the RBA had given "very serious consideration" to another rate rise on top of the 13 hikes since the present cycle began in 2022.

Her stance was backed by RBA deputy governor Andrew Hauser after his return from the Jackson Hole meeting.

In an interview with the *Conversation,* Hauser said: "Sadly, at the moment Australian inflation has been a bit stickier than it has been in the US. We're not as confident as [Powell] is in the US, that inflation in Australia is back on a sustainable path back to target. And therefore we have to hold rates where they are for the time being."

The central thrust of the barrage over Chalmers' remarks was that government spending had to be cut.

The head of the financial firm Wilson Asset Management, Geoff Wilson, was one of the first into the fray denouncing the “appalling behaviour” of Chalmers in comments to the Murdoch-owned *Australian* newspaper.

He quickly got to the essential demand of all sections of finance capital claiming that stimulus measures in the last two federal budgets had hindered the efforts of the RBA to bring down inflation through its interest rate cuts.

“If [the government] weren’t running expansionary budgets, then [the RBA] wouldn’t have that problem,” Wilson said.

In fact, the Labor government’s budgets have made real cuts in vital social services while increasing spending on the military, but the demand is for more.

The Murdoch press then wheeled out former Prime Minister John Howard to deliver the same message in an opinion piece published yesterday.

He said it was a “well accepted fact” that if government spending was too high this exerted upward pressure on interest rates. “There is little argument that the Albanese government has lost control of expenditure.”

Back in May, the RBA said government spending was one of the factors leading to higher inflation. In deference to the problems this caused for Chalmers, Bullock pulled back slightly saying it was not the “main game.”

But she maintained that the RBA board “does remain concerned about the degree of excess demand in the economy.” With the economy essentially flatlining, that means it should be driven into recession and government spending cut before interest rates can be reduced.

The issue of government spending was raised in comments by the head of the ABS national accounts department, Katherine Keenan. The latest data showed that federal government spending hit a high of 11.8 percent of GDP in the June quarter, around the same level as at the start of the pandemic. And she indicated what the target for cuts should be.

“The rise in June was due to continued strength in social benefits programs for health services. State and local expenditure also contributed to growth with a rise in employee expenses,” Keenan said.

While not making their demands specific, in order to try to preserve a veneer of neutrality, the economic organisations of the capitalist state are making clear the class orientation of their policy demands—cuts to social services as well as the further suppression of wages.

In the controversy leading up to the release of the data, Chalmers insisted he was not attacking the RBA but was simply “telling it like it is.”

“We’ve got different responsibilities, but we’ve got the same objective,” he said.

That much is true. The objective of the RBA in its so-called fight against inflation has been to ensure that workers’ struggles against the most significant cuts to living standards in the post-war period are suppressed. It has sought to do this through the 13 interest rate increases since May 2022.

The Labor government is pursuing the same objective as it relies on the trade union apparatus to impose sub-inflationary wage agreements on workers. At the same time, it has tried to maintain a certain political equilibrium by promoting the illusion that its tax cuts, largely benefiting the wealthy, plus power subsidies are alleviating cost-of-living pressures.

But the dictates of finance capital are relentless. It is demanding that even these entirely inadequate measures be eliminated, and deep cuts be made to essential social spending.

The efforts of the Labor leadership to maintain support have failed as poll numbers indicate that its support has fallen below even the levels it received at the last election. But significantly, this has not translated into increased support for the Liberal Party and its leader Peter Dutton.

A recent opinion poll asked whether inflation would be higher, lower or the same under a Dutton-led government. Only 24 percent said it would be lower, 41 percent said it would be the same and 18 percent thought it would be higher.

Opinion polls are notoriously inaccurate measures of political consciousness and understanding. But the response does indicate the widespread hostility in the working class and among the youth to the entire political establishment, as well as the growing realisation that deeper processes are at work and the mounting social and economic problems they confront cannot be resolved within the existing political framework.

The key task, which the Socialist Equality Party has placed at the centre of its electoral membership campaign, is to raise this hostility to a deeper understanding. That is, that the attacks on the working class, which will deepen as recessionary trends continue to intensify, can only be resolved through the conscious and active fight for socialism, directed against the entire capitalist system and the building of the revolutionary party to lead this struggle.