Australian economy barely avoids contraction

By Mike Head
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During the first three months of 2017, Australia's gross domestic product (GDP) increased by only 0.3 percent in seasonally-adjusted terms, further exposing the fanciful forecasts in the federal government's May 9 federal budget of growth surging to 3 percent within two years.

Australia's output has grown by just 1.4 percent in the past 12 months, according to the estimates released yesterday by the Australian Bureau of Statistics (ABS).

The government tried to put a positive spin on the figures, saying the country has now avoided recession for 26 years. In reality, the statistics point to an underlying decline since the 2008 global financial crisis, compounded by the end of the boom in mining exports and investment.

During the past four-and-a-half years, Australia's annual GDP growth has never been above 3 percent—the longest such run since the ABS began calculating quarterly GDP in 1959. Since the 2008 crash only four quarters have recorded annual growth above 3 percent.

GDP per capita growth—a better indicator of living standards—is even worse. In seasonally adjusted terms, it fell in March by 0.1 percent. Over the past year it grew by just 0.2 percent, the lowest rate since the 2008 meltdown and at a level historically associated with a recession.

The figures make a mockery of Treasurer Scott Morrison's boast, made three months ago when the December figures showed a brief uptick to 1.1 percent quarterly growth, that Australia's economy was growing faster than any G7 nation.

Yesterday, Morrison still attempted to put a gloss on the statistics. "The results today demonstrate the continued resilience of the Australian economy," he told reporters. In reality, the results point to a protracted reversal, and ever-worsening social inequality.

Profits—as measured by corporate gross operating surplus—surged by 20.1 percent in the past year, largely on the back of a short-term spike in export commodity prices, which sent the terms of trade soaring by 25 percent.

But real wages continued to fall, and the total number of hours worked remained stagnant. The wages share of the economy fell to the equal lowest point since 1964.

In Australia, and around the world, companies are ruthlessly cutting jobs and conditions. Real labour costs fell 6 percent in the past 12 months—the biggest one-year fall in history. The jump in profits mostly went to the mining sector, where employment is down 12 percent on five years ago.

Without spending by deeply-indebted households, the economy would officially be in recession. Household final consumption expenditure increased 0.5 percent in the March quarter, mainly driven by higher outlays for electricity, gas and other fuel (up 2.9 percent).

Over the past year, this spending growth remained at an historically low 2.4 percent. And much of that rise was due to households reducing their saving rate, from 5.1 percent to a decade low of 4.7 percent. This rate has halved in four years.

The trends "remain worrying," Su-Lin Ong, RBC's head of Australian Fixed Income Strategy, told the *Australian*. "Highly-indebted households continue to save less to fund expenditure." It was "questionable" how much further household savings could decline, given still-elevated unemployment, easing house prices, weak wages growth and below-average consumer confidence.

Investment in dwellings fell sharply by 4.4 percent in the quarter, reducing GDP growth by 0.2 percent. This is another indicator of the end of the five-year east coast housing construction boom that has largely propped up the economy since the mining boom began to unravel in 2012.

Corporate investment remains low, suggesting that a slump lies ahead. Gross fixed capital formation decreased 0.6 percent in seasonally adjusted terms in the March quarter.

The largest contributor to GDP in the March quarter was "change in inventories"—essentially companies building up their stocks. Growth was recorded in service industries such as finance (up by a profitable 4 percent over the year) and insurance, wholesale trade and healthcare, but the manufacturing sector slipped backward for the 10th time in 11 quarters.

The ongoing weakness is intensifying the pressure on the government, which has promised the financial markets it would eliminate the near $40 billion annual budget deficit by 2020–21. The global credit ratings agencies could end the country's AAA borrowing status unless the government demonstrates its capacity to slash social spending.

Peter Van Onselen, the *Australian's* contributing editor, commented: "Today's quarterly growth numbers throw shade all over the unrealistic forecasts in the budget. If anyone still believes that the government can achieve the budget surplus in the out years as predicted they must also believe in Santa Claus and the Tooth Fairy."

Venting the demands of the corporate ruling class, Van Onselen said a surplus could be achieved only via "major structural reforms," including cutting business taxes, reducing public spending and changing industrial laws. But these had been placed "in the too hard basket given the state of the polls and the divisions within the government on almost all policy fronts."

Adding to the political crisis, Labor, the Greens and third-party "crossbenchers" in the Senate have said they will oppose some of the most egregious cuts to education, healthcare and welfare in the May 9 budget. They fear electoral backlashes if they support the government in any way.

The *Australian* recently estimated that at least $14 billion worth of cuts over four years face a "blockade" in the Senate, where the government holds only 29 of the 76 seats as a result of the near-defeat it suffered at last July's double dissolution election. Unless Labor or the Greens assist the government, it needs the votes of 10 of the 12 Senate crossbenchers to pass legislation.

In response to the dismal growth figures, Treasurer Morrison urged Labor, the Greens and Senate crossbenchers to "meet us in the middle" and "work with the government to provide the policy certainty and stability that will encourage and support investment."

However, the government's plight worsened this week when university vice chancellors urged the Senate to defeat the government's budget higher education package, which imposes another 5 percent reduction in per student funding, while hiking student fees.

Today's editorial in the *Australian* again voiced its dissatisfaction. "The 2017 budget and its rose-tinted outlook are the product of political deadlock in the Senate," the editorial declared. "Official forecasts of revenue lack credibility and a surplus by 2021 is just a pipe dream… With political dysfunction such as this, expect more bad economic news."

The Labor Party is trying to position itself to take office and deliver the requirements of the financial elite. Shadow Treasurer Chris Bowen attributed the 26 years without a recession to the "consistency of purpose" displayed by the previous Labor governments of Bob Hawke, Paul Keating and Kevin Rudd. These governments fundamentally restructured the economy, in line with global processes and corporate demands, laying the basis for the historic decline in the wages income share.

The working class and young people, who are bearing the brunt of the economic crisis, cannot expect any element within the political establishment to reverse this assault.