# Despite headline growth figures, Australian national accounts point to contraction

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The Australian economy expanded by 0.9 percent in the first quarter of the year, an annual growth rate of 2.3 percent, according to data released yesterday by the Australian Bureau of Statistics. The annual figure is below the historical trend, yet it prompted an extraordinary outburst from Treasurer Joe Hockey.

Proclaiming Australia to be one of the fastest growing economies in the world, and the gross domestic product (GDP) results a "terrific set of numbers," Hockey said "clowns out there that are talking about recession and dark clouds on the horizon" had "proven to be looking foolish."

However, the figures revealed that about three quarters of the expansion resulted from increased exports, particularly iron ore and coal, which were up by 5 percent in the quarter, the best result in 15 years, and housing investment increased by 4.7 percent, the best result in six years.

While boosting GDP numbers, both results point to underlying trends that have been of concern in corporate circles.

The increase in iron ore and coal shipments is the outcome of increased supply, which has seen prices fall by up to two-thirds from their peak. The national accounts showed that the terms of trade—a ratio of export to import prices—fell for the fifth quarter in a row.

The rise in housing construction took place amid warnings—the latest by the treasury secretary John Fraser this week—that the escalation of house prices in Sydney and Melbourne points to the formation of a bubble.

Significantly, data for the two mining boom states of Western Australia and Queensland showed they were either in or near recession. The Western Australian economy contracted by 1.8 percent in the first quarter, following a 0.1 percent drop in the December quarter of last year, meeting the definition of a technical recession. The Queensland economy grew by just 0.1 percent, following a 0.9 percent contraction in the final quarter of last year.

Figures for the national economy as a whole pointed to worsening and even contractionary tendencies.

The official scenario for the Australian economy has been that with the fall in mining investment as new projects come on stream, the gap will be made up by investment in other areas of the economy. That is not happening. Investment in non-dwelling construction fell 4.9 percent in the quarter, the equivalent of 0.4 percentage points of GDP. Investment in machinery and plant dropped by 2.9 percent.

Data on the income side of the accounts, rather than expenditure, showed the impact of the contractionary tendencies in the world economy. The average per capita income, which is widely regarded as a better indicator of living standards than GDP numbers, fell again and is now 3.8 percent below its peak in 2011, and below the level reached in 2008, just before the global financial crisis.

The average income per worker fell by 0.5 percent in the quarter and is only 0.4 percent higher than a year ago. Total wage income, which takes into account the expansion of the workforce, rose by only 0.1 percent, while business profits were down by 1.8 percent over the year.

Economist Andrew Charlton, an adviser to former Labor Prime Minister Kevin Rudd, noted that Australian living standards were now falling for the first time in 50 years and that this was not a short-term trend.

Hockey's upbeat assessment was not generally shared in business and financial circles. A note by

Citigroup said that “sparking” headline growth masked worrying signs. “The declining terms of trade is sucking oxygen from businesses and households.”

With real wages stagnant or in decline, households are being forced to turn to savings to try to maintain living standards. The savings ratio fell to 8.3 percent in the March quarter, the lowest level since the September quarter of 2008, and well down from the 11.7 percent recorded in the middle of 2012.

The *Australian Financial Review*, which acts as a mouthpiece for key financial and business elites, directly took issue with Hockey’s upbeat assessment of the economy in an editorial today entitled “Not so beautiful set of numbers.”

“Far from terrific or beautiful … the national accounts confirm that, after two decades of great prosperity, Australian living standards have peaked and are now falling,” it stated.

Even with the boost from iron ore exports, the economy had been growing at well below its long term trend rate of 3.25 percent for the past two and a half years, with no significant pick-up in sight.

Furthermore, the editorial continued, the iron ore price collapse meant that the income generated from increased GDP had been falling for the past three years.

“Since peaking in September 2011, real per capita income has contracted by 3.8 percent, from over $55,000 to $53,000 in annual terms. The pie is shrinking, putting a lid on profits, strangling new business capex [investment], pushing down on wages growth, squeezing tax revenue and entrenching a federal fiscal deficit.”

As it has on many previous occasions, the editorial called for a boost in productivity—the code phrase for deepening attacks on wages and working conditions—and castigated the political establishment for not initiating it and “ignoring the facts of the matter.”

Labor leader Bill Shorten was talking about “fairness,” it stated, while Prime Minister Abbott “weirdly” attacked Shorten for repeating Treasury Secretary Fraser’s warnings of a housing bubble.

The Australian economy remained “vulnerable to something going wrong with the global economy, such as [the] US Federal Reserve trying to normalise its near-zero interest rates later this year.” The editorial pointed to warnings issued earlier this week by former Commonwealth Bank of Australia chief David Murray, the head of the government’s inquiry into the financial system, of the impact of a collapse in the housing bubble.

Murray said a sudden fall in house prices would hit consumer confidence, cut housing investment and lead to a rise in unemployment.

Such a development would rapidly see the underlying recessionary trends in the Australian economy, disguised somewhat by headline growth results in the national accounts figures and denied by Hockey, come very rapidly to the surface.