THE IMPACT OF THE GFC ON AUSTRALIA AS A 'DUAL ECONOMY'

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The impact of the global financial crisis (GFC) on the Australian economy can be viewed from a 'dual economy' perspective, focusing on its four most populous and economically powerful States - NSW, Victoria, Queensland and Western Australia. This perspective emphasises the duality between the 'resource States' of Queensland and WA and the 'manufacturing States' of NSW and Victoria.

A 'dual economy' analysis provides a better understanding of the causes of the strong growth of the Australian economy prior to the GFC and highlights the imbalanced impact of the GFC on the four key States. It shows that a focus on aggregate growth of the Australian economy fails to fully engage with the unbalanced economic impacts that attend upon both periods of growth and crisis. Finally, the emphasis on the dual economy allows further insight into the period following the downturn, with the Australian economy now appearing to recover, but in different directions in the two groups of States.

Stronger for Longer

From 2006 to the dramatic stock market decline of late 2008 a 'consensus' view of economic growth predominated, captured by the phrase 'stronger for longer'. Experts, international banks and economic consultants, argued that there would be a sustained period of global growth into the future. As late as March 2008, Access Economics maintained that the Australian growth rate for 2008/09 might be 3.8%, while the Australian Treasury itself anticipated growth of 2.75% (Access Economics, 2008).

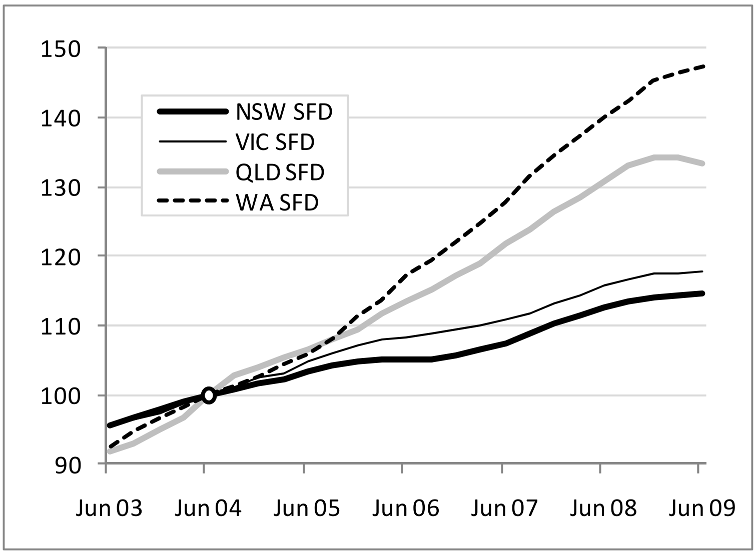
The basis for the 'stronger for longer' thesis was China's economic development, a surge that came to be symbolised by the huge steel 'birds-nest' stadium built for the 2008 Olympics. China was consuming an exponentially increasing quantity of raw materials, including one of Australia's primary exports, iron ore (ABS: 5368.0). Chinese growth exceeded 10% per annum from 2003 onwards and was anticipated to continue at this pace for years to come. China's dynamism was nearly matched by India's, which reached 9.7% GDP growth in 2006 (IMF, 2009). These two economies combined contain more than a third of the world's population.

The resources consumption of these two growing Asian economies was identified as a primary driver of Australia's strong GDP growth and its ability to maintain that growth even as the US economy was subject to the evolving sub-prime mortgage crisis. However, putting China at the centre stage of Australia's export boom is misleading. In the last five years, Japan has had the primary export market position for Australia, until China surpassed this position at the beginning of 2009, notably after the onset of the GFC (ABS: 5368.14). South Korea has been the third most important export market, exceeding the next market, India. It is true however that both China and India have been the source of greatest value growth as export markets for Australia, with China growing 284% from 2004 to 2009, and India growing 180% (Japan 125% and South Korea 103%).

In any case, the buoyancy of the global economy and the Australian export boom contributed to uneven development in the Australian economy. Indeed, economic analysts began to refer to a 'two-tiered' economy, separating their analysis of the economic conditions and growth of Queensland and Western Australia (the 'resource' States) from that of the other States. This division is pertinent for comprehending the economic and social imbalances that were developing in the Australian economy, with negative impacts increasingly evident.

The characterisation of Australia as a dual economy must be qualified and elaborated. The economic performance of WA and Queensland has been distinguished over the last five years from that of NSW and Victoria, as manifested in State Final Demand statistics (Figure 1). State Final Demand experienced the greatest expansion in WA in the period from 2004-2009, at 45%. Queensland was also strong. NSW was the weakest, with an increase of 15%; while the rate of growth in Victoria only slightly exceeded that in NSW.

Figure 1: State Final Demand, Selected States, index, base 2005

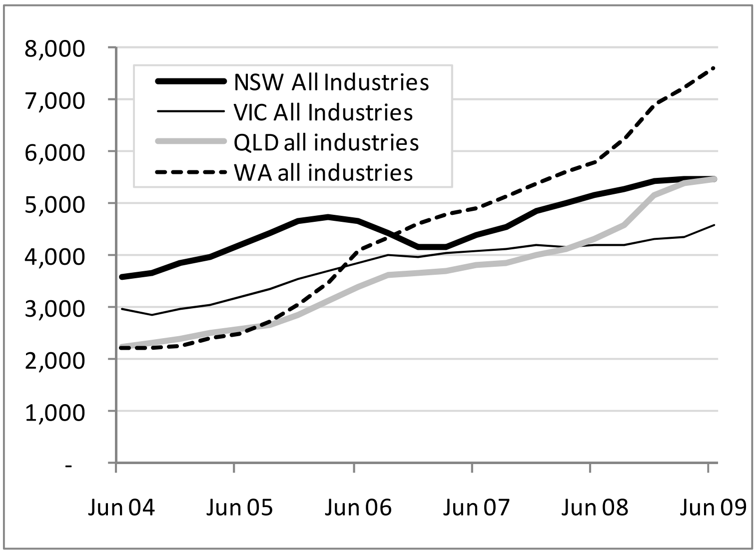


Source: compiled from ABS 5206.0

Although NSW and Victoria remain the largest economies (with the largest populations), WA and Queensland had accelerated economic growth. Their accelerated growth received a substantial contribution from investment. For example, although WA has the smallest population of the four States, its private new capital expenditure increased fastest (as shown by Figure 2 on the next page). In the five years to June 2009, WA private new investment increased by over 200%. Queensland’s private new capital expenditure increased by 82%, reaching equivalence with

NSW by mid 2009. New capital expenditure in Victoria increased by only 53%. NSW came last, with a 24% increase.

Figure 2: Private New Capital Expenditure, All Industries, Selected States, $million per quarter, 4 period rolling average

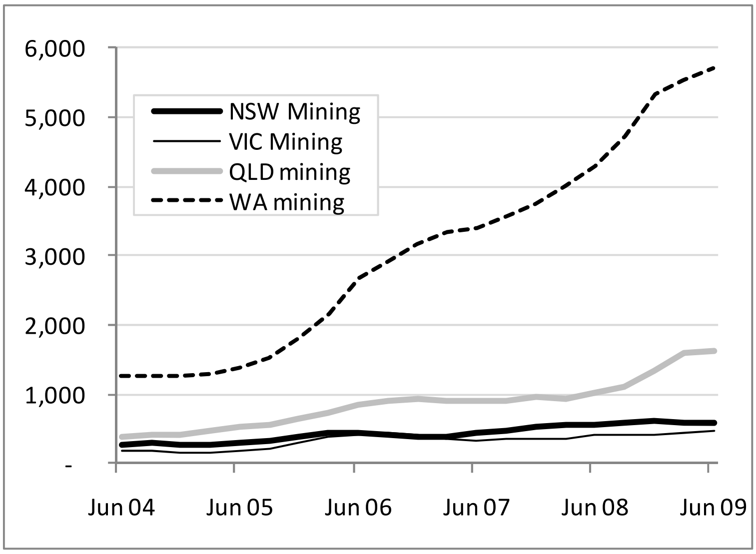


Source: ABS 5625.0

The primary source of WA's investment performance was the mining boom and the rising international demand for raw materials such as iron ore and natural gas. In June 2005, mining investment in WA was equal to the other three States combined (as shown in Figure 3). By June 2006, investment in mining in WA had reached $11 billion annually, increasing at a rate of around 25% per annum. By June 2009 new mining investment in WA was double that of the other States combined, reaching almost $6 billion dollars per quarter.

Queensland mining investment also greatly increased in the same period, peaking at $2 billion dollars per quarter in December 2008, significantly exceeding that of NSW and Victoria.

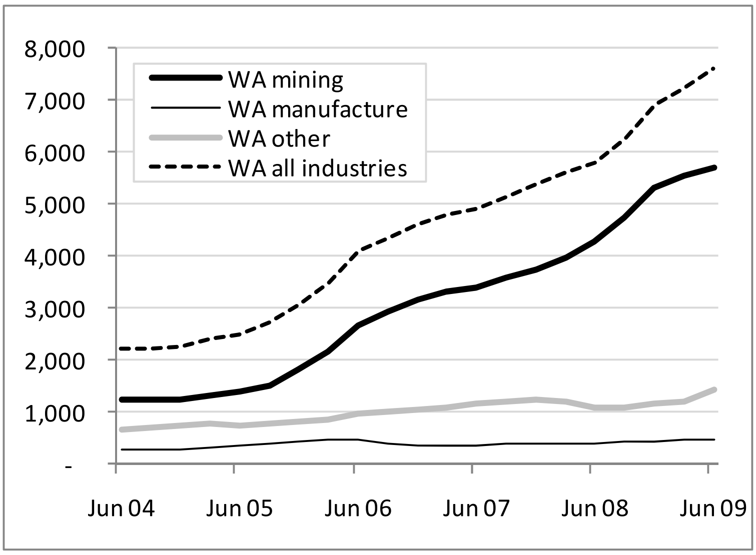
Figure 3: Private New Capital Expenditure in Mining, Selected States, $million per quarter, 4 period rolling average



Source: compiled from ABS 5625.0

Total capital expenditure in WA comprised an extraordinary share of total new capital expenditure in Australia over the last five years. In turn, the dominance of mining in this total investment has been significant to the structure of investment in WA. Mining constituted 58% of all private new capital expenditure in WA in June 2005 (as shown in Figure 4 on the next page), peaking at 78% in September 2008. For Queensland, mining investment had constituted 21% of total private new capital investment five years ago. It increased substantially to reach a peak of 36% in March 2009.

Figure 4: Private New Capital Expenditure in Western Australia, $million per quarter, 4 period average



Source: compiled from ABS 5625.0

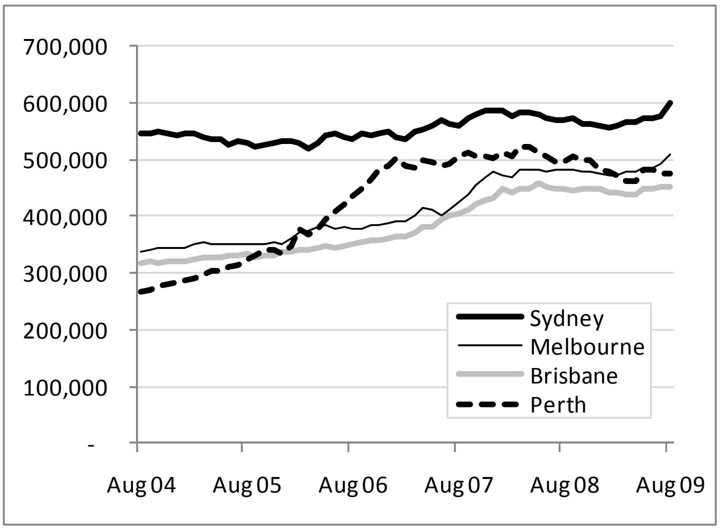
Investment, Population Growth and Housing

The total investments in the resource-rich States entailed increasing demand for suitable skilled labour. Consequently, workers streamed to WA and Queensland. Combining immigration from other countries, interstate migration and natural births, Queensland saw the highest population growth of any Australian state, growing at a consistent 2.5% per annum since 2003 (ABS: 3101.0). WA's population growth was the second highest in 2003 at 1.5%, but has since outpaced that of Queensland.

Regardless of interstate migration, the primary source of labour (and population growth) for WA in the last several years has been from overseas. An increasing share of Australia's immigrants has diverted to WA, due to the strong prospects for employment at high wages. This phenomenon has resulted in WA's annual population growth touching 3% and has contributed to Australia's rate of overall population growth rivalling that of India (IMF, 2009).

The population surge in WA and Queensland required more housing. The shortage of housing generated dramatic increases in prices for both land and houses. House prices in WA sustained an average growth above 30% in 2006-2007 (REIA, 2008). Indeed, price rises had been so relentless in WA that the average house price surpassed Melbourne's average level in mid-2006 (Figure 5). News reports indicated that land package buyers were camping at new release sites overnight to be sure of securing one of the limited land allotments available (*Sydney Morning Herald*, 6.8.2006).

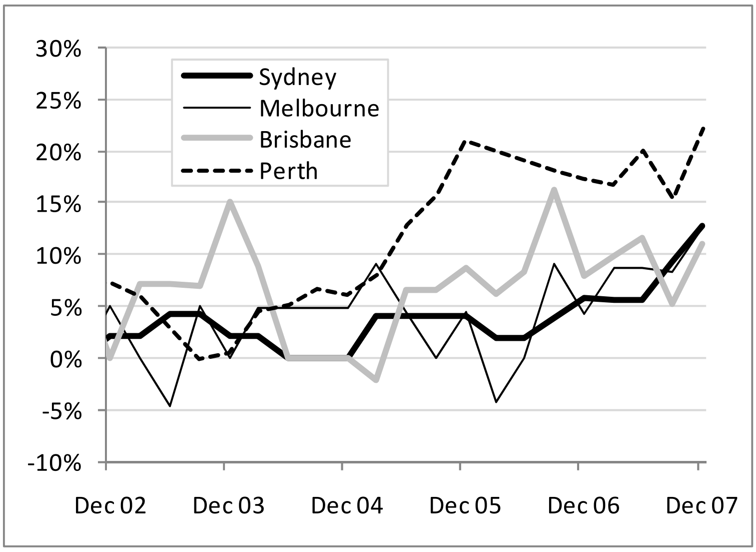
Figure 5: House Prices, Selected Capital Cities, Residex Resales



Source: Residex (2009) *Market Wrap*

Rental rates in WA and the other States also rose rapidly, as shown in Figure 6 below. This development exacerbated economic disparities, as the direct beneficiaries of the mining boom (*i.e*. those on higher wages) were better able to afford the rising rents than those economically removed from the boom.

Figure 6: Median Weekly Rent for 3-bedroom Houses, annual change



Source: REIA, *Real Estate Market Facts*, December 2007 quarter

Meanwhile, NSW rental rates also started to rise sharply, but for different reasons. This rise can be traced to the house price boom that occurred at the beginning of the decade. By 2003, NSW house prices had peaked temporarily, while affordability hit a record low (HIA/CBA, 2008). There followed a sustained period of house price stagnation, coinciding with sagging land sales for property developers. Increased infrastructure costs and high interest rates were two factors contributing to the 'malaise' in the NSW housing market at that time, and slowing the rate of housing construction.

Yet, underlying housing demand was increasing, as NSW continued to have the largest total population growth, in absolute numbers, of any state. The net result was that an increasing number of people were renting, unable to buy their own home. Consequently, vacancy rates in NSW dropped to an unprecedented 1% of total housing stock by the end of 2007 (REIA, 2008). This drove a boom in rental returns. As in WA, dozens of people would line up for newly available rental properties in Sydney, sometimes outbidding each other to gain tenancy.

This scenario is a testimony to the socially disruptive machinations of market forces in a complex sector like housing: prices surge and then stagnate; supply exceeds and then falls short of demand; there is seldom, if ever, a sustained period of balance or predictability.

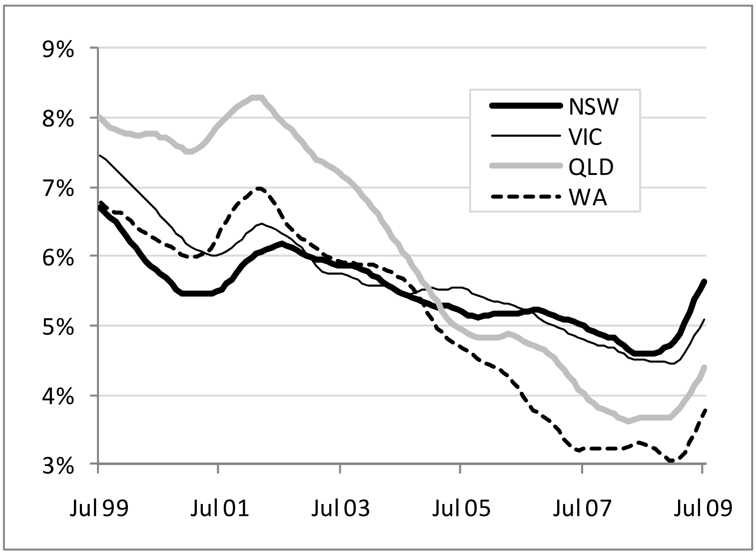
Inflation...in Wages, House Prices, Rents, Retail, Petrol

Despite significant population growth for the ‘resource’ States, the sudden boom still meant that labour remained in short supply. The four large States all had unemployment levels at around 6% at the end of 2003. In both Queensland and WA unemployment then dropped rapidly, with Queensland reaching 3.1% in August 2008 (ABS: 6202.0) and WA dropping to 2.6% in the December quarter of 2008, the lowest rate ever recorded in that state. Figure 7 on the next page illustrates the emerging unemployment differential between the ‘resource’ States and NSW and Victoria.

The chronic shortage of labour, particularly in WA, fuelled the high wages already offered in the mining and related sectors. While it may be apocryphal, there was talk of Sydney doctors leaving their practices to become truck drivers in the Kimberley where they could earn higher incomes.

The rate of increase in ordinary-time wage costs in WA exceeded the Australian average from 2005 onward (as shown in Figure 8 on p. 75). In 2006, the rate for Queensland followed suit, and they continued to exceed NSW and Victoria up to at least June 2009.

Figure 7: Unemployment Rate (full time and part time), 12-month rolling average



Source: compiled from ABS 6202.0

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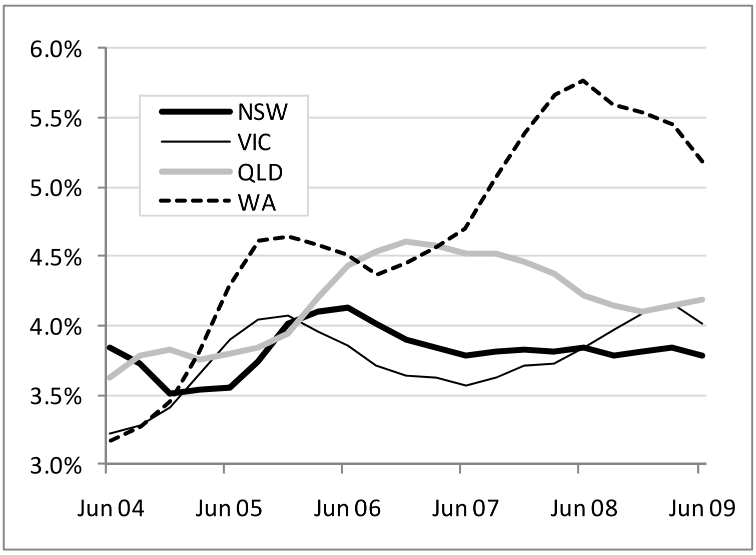
The rate of increase in the cost of wages, as well as rents, housing and retail goods prices contributed to a sharpening rise in consumer prices. The Reserve Bank of Australia (RBA) maintains a benchmark threshold of 3% as an upper limit to 'optimal' CPI inflation. The rate for the Australian economy repeatedly exceeded this level, and prompted increases in the RBA’s target cash rate. The cash rate was raised eight times by 0.25% increments from the beginning of 2005 to early 2008.

Figure 8: Labour Cost, annual percentage change



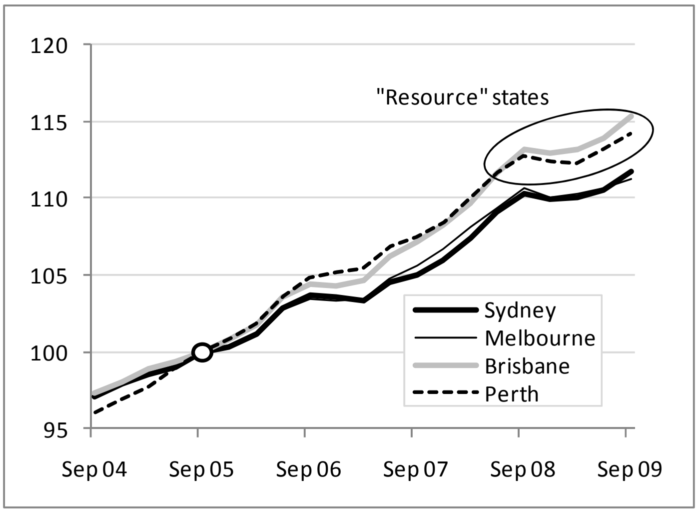
Source: compiled from ABS 6345.0

It appeared that the RBA was justified in increasing its target cash rate, in view of measured aggregate performance of the Australian economy and accelerating inflation. However, from the perspective of the individual States, the rate decisions of this period could be seen to have had detrimental effects, economically and socially. Although the export boom had generated great wealth and high employment in WA and Queensland, there were negative impacts in the ‘manufacturing’ States as a consequence. One of these impacts was the rising Australian dollar. Increasing iron ore and other mineral exports (and associated speculative activity) generated demand for the Australian currency, driving it up against the value of the US dollar, reaching a high of 79 cents to the $US in 2006 (RBA, 2009). The rise of the Australian currency, from its extraordinary low of 48 cents to the $US in 2001, had a negative effect on exports from Victoria and NSW. The agricultural sector in general, with a strong export focus, was also disadvantaged by the rising exchange rates.

In addition, the boom in China was contributing to an increasing demand for crude oil, generating sharp increases in international prices. Australia was partly shielded from the international price spike, due to its rising currency, but the impact was felt by those least able to afford prices at the pump, which rose to an average in Sydney above $1.40 per litre in early 2008 (Australian Automobile Association, 2009). The rise in oil prices, a natural product of the global economic boom, generated much chest-beating from government Ministers and the usual threats of inquiries into the petroleum refining and retail sectors.

Figure 9 below illustrates the differential in the state-based CPI between the 'resource' States and the 'manufacturing' States. It is evident that WA and Queensland were the States making the greatest contribution to consumer price inflation.

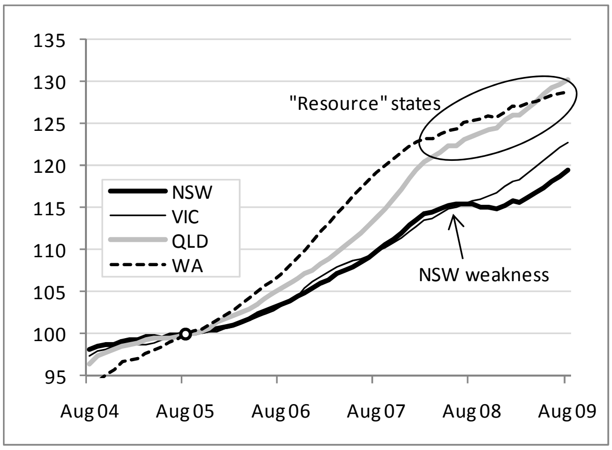
Figure 9: CPI for Selected States, index rebased to 2005



Source: compiled from ABS 6401.0

The RBA assessed that aggregate economic activity was generating excessive inflation. The response was a series of hikes in the target cash rate, which the commercial banks closely followed in their mortgage lending rates. The RBA target cash rate had already been increasing since 2001. However, a slow ratcheting of rates, perhaps tolerable in a period of moderate growth, became more rapid as the economy went into hyper-drive. (This latter phrase is not inappropriate, given that WA annual growth had peaked in September 2007 at 13% (greater than China) while Queensland had exceeded 10% the previous quarter (ABS: 5206.0)). The benchmark cash rate was raised to its maximum of 7.25% in March 2008. Although the rate rises had helped to temper the WA and Queensland economies, it was feared as early as 2006 that the rate rises might push NSW or Victoria into recession (ABC, 2006). The concern was reflected in retail sales growth, with NSW slowing significantly, having negative growth in the second half of 2008, as shown below in Figure 10. It became clear that one of the primary instruments of national economic regulation was a blunt stick that punished sectoral and spatial economic weakness while failing to address the primary dimensions of economic imbalance.

Figure 10: Retail Sales Index, Selected States, rebased to 2005

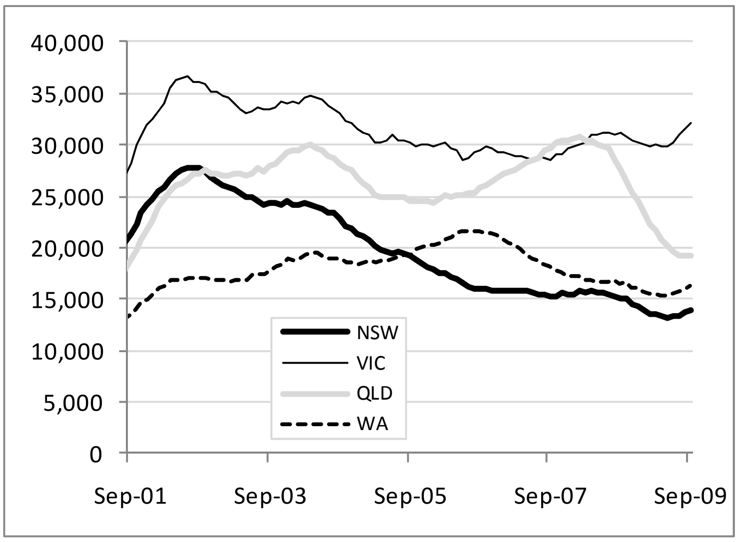


Source: compiled from ABS 8501.0

Another significant impact of the interest rate rises was a further suppression of demand in the NSW housing market, despite the underlying shortage of housing.

Figure 11 illustrates the relative experience of the housing sector in NSW and WA. Despite its much larger population and underlying housing demand, NSW building approvals for private dwellings kept dropping throughout the boom period. One major NSW home builder, Beechwood, went bankrupt in May 2008 (ABC 2008), leaving many people with half-built homes. Another closed its NSW land development division altogether in mid 2008, having an excess supply of land to last many years and few buyers (Dunlevy, 2008). In WA, the pent-up housing need was met, albeit slowly. Subsequent to the boom, building approvals in WA have dropped, though their level remains buoyant compared to those prevailing in NSW.

Figure 11: House Approvals, Selected States, original, moving annual total



Source: compiled from ABS 8731.0

In the Eye of the Storm

While the Australian economy – or substantial parts thereof – boomed on the back of China’s resource demands, there was increasingly bad news from the USA. Starting with the collapse of the sub-prime mortgage market, the rest of the economy was adversely affected as it became increasingly evident that a variety of ‘highly reputable’ financial institutions were in difficulty. Although the Australian economy was not directly affected by US economic conditions to any great extent, the question was whether China would be affected by US conditions. Evidently, what is bad for the Chinese economy is bad for the Australian. Initially, there was confidence that the growth of China, though export led, contained a substantial and sustainable internally generated component. However, economic analysts began to revise their Chinese growth forecasts downward.

Despite these ominous signs, it is notable that the view of Australia’s circumstances among economists was still benign. This optimistic view was held not so long ago; but it is easy to forget the crucial details of economic sentiment that helped to push economic policy in particular directions at this time. For example, in this very journal, Stephen Bell and John Quiggin (2008) suggested that:

The pattern of boom and bust that characterised the Australian economy from the early 1970s to the early 1990s currently seems to be a thing of the past as Australia enters its sixteenth year of uninterrupted expansion.

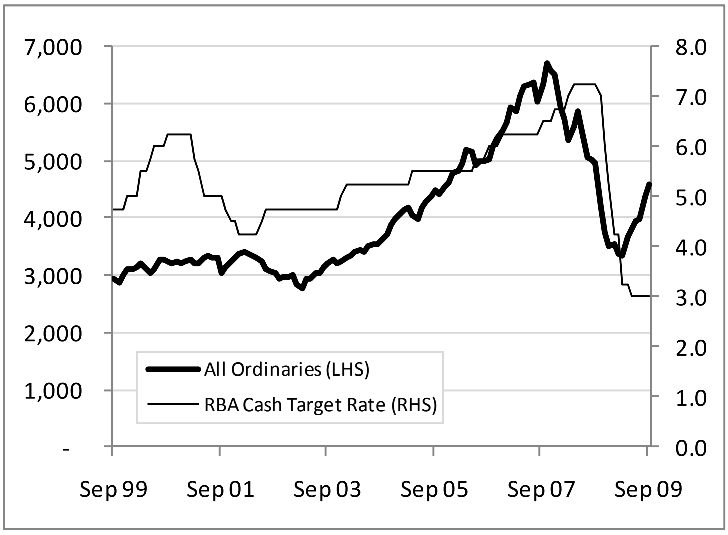
A complex series of factors would ensure that, technically, Australia would not actually enter a recession as several other economies had done. However, the positive attitude about Australia’s economic resilience would be tested.

‘Weaker for Longer’?

The performance of the Australian stock market during the GFC is an important barometer of overall sentiment about the Australian and world economies during this period. The stock market was both a symbol and a manifestation of the economic downturn.

The All Ordinaries Index reached its highest point of 6,873 on the first of November 2007. A year later, the index had halved, involving a nominal one trillion dollars in value lost (Digitallook, 2009). The downturn in the stock market appeared relentless, with previous optimism being matched by a comparable pessimism. The loss in value of stocks affected the general population in several ways. First, with stocks favoured by some as a form of savings, a reduction of the financial reserves in this sector meant less potential cash available for investment or spending. In addition, superannuation funds are dependent on stock market performance. The collapse of the stock market after 2007 saw some retirement savings slashed by up to 50%. News reports in 2008, not surprisingly, cited many people delaying their retirement and being forced to continue working (Mercer, 2008).

Figure 12: All Ordinaries Stock Market Index and RBA Cash Rate



Sources: Yahoo (2009), RBA (2009b)

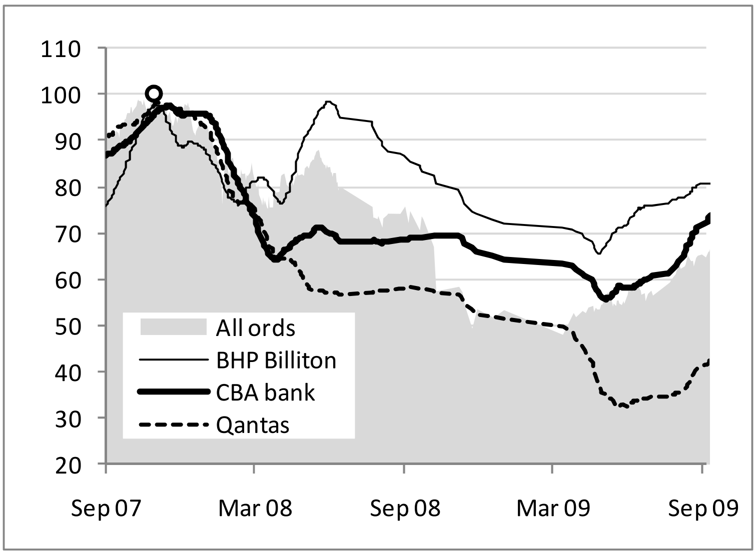
The magnitude of the 2008 stock market collapse (both in Australia and internationally) drew repeated comparisons with the Great Depression of the 1930s. This comparison encouraged a potentially misleading interpretation of current events. The stock market collapse of the 1930s was accompanied by very high unemployment and social upheaval; and it involved uncompromising beggar-my-neighbour moves by the major players of the world economy. Economic stimulus measures in the US after 1929 were implemented late and occurred in an era when the concepts behind ‘Keynesian’ economics had not yet been popularised. This recent economic downturn saw some quick state stimuli implemented. Governments worldwide pumped billions of dollars into their economies to stimulate economic activity.

In the US, the ‘Cash for Clunkers’ program, provided subsidies for consumers to buy new cars. In Australia, the government quickly implemented measures to stimulate the economy, including increased grants to first home buyers at the end of 2008 (Office of State Revenue, 2009). A prominent effort was the one-off general stimulus to the retail sector, providing a $900 grant to taxpayers to spend at the supermarket and stores such as Harvey Norman (*The Australian*, 3.4.2009). The Keynesian stimulus measures were justified by the characterisation of this downturn as cataclysmic, summed up by Kevin Rudd (2009):

> From time to time in human history there occur events of a truly seismic significance, events that mark a turning point between one epoch and the next. There is a sense that we are now living through just such a time.

Several months after Rudd’s essay appeared, the stock market witnessed a substantial bounce back from its absolute lows. Figure 12 illustrates the movements in the Australian stock market, while Figure 13 (on the next page) benchmarks several high-profile companies against the All Ordinaries Index. BHP initially defied the downturn, but its share price did fall and has recovered somewhat this year. It is notable that, since the beginning of 2009, the value of shares in the banking sector has also been more buoyant, exemplified by the performance of Commonwealth bank stocks. Other companies, such as Qantas, took a beating and have only slowly started to recover.

Figure 13: Index of Selected Australian Stock Market Indicators, Sept 2007–Sept 2009



Note: Base of 100 for all indices set for November 2007

Sources: Yahoo (2009), ASX (2009)

There was a sharp rise in unemployment during the downturn, but it appears to have peaked nationally at 6.3% in February 2009 (based on a 4 quarter average). This figure remains substantially below the rate of unemployment that followed the 1990s recession, when it had peaked at 10.5% in February 1993 (ABS: 6202.0).

Despite signs of reasonable economic health, the return of more positive consumer sentiment and China's resumption of rapid economic growth, economic analysts initially continued to anticipate hard times. In May 2009, Econtech, a forecasting firm, anticipated a contraction in GDP of 1.2% for 2009 (KPMG Econtech, 2009). NAB, in its June 2009 *Quarterly Business Survey & Forecasts*, still anticipated unemployment to exceed 7% in 2009 and rise above 8% in 2010.

Narrowly Averting a Recession

That the pessimistic comparison with the Great Depression was not fully justified, at least for the Australian economy, became clear when GDP figures were released for the March quarter of 2009, confirming a slight quarterly downturn in December 2008, but with annualised growth remaining positive (ABS 5206.0). This showed that Australia had narrowly dodged a ‘technical’ recession, unlike many of the G20 nations.

In the medium term, there are grounds for believing in the continuing good health of the Australian economy. Indeed, given resurgent economic conditions, the RBA determined in early October 2009 that the ‘life-support’ provided by historically low interest rate levels should be scaled back. The target cash rate was therefore raised from its historic low of 3% by 0.25%. The first RBA target rate rise in October 2009 also drew international attention. Australia was seen, symbolically, to be leading the advanced G20 economies out of the downturn.

The RBA’s decision, based on the latest economic indicators, caught several analysts by surprise – with Westpac, for example, scrambling to forecast interest rate rises being higher and sooner in response to improved economic indicators (Evans 2009). Regardless of greater optimism about economic recovery, the Australian economy has long-term structural problems. The imbalance of economic performance (across the four main States as well as nationally) is persistent and the possibility of increasing social disadvantage is developing. As the economy as a whole improves in the next year, the RBA is likely to raise the cash rate again. This may continue to have adverse effects on both the weakest States and the weakest social groups.

The Conditions and Prospects of Individual States

The Australian economy is facing economic conditions and policies, following the GFC, that will have different impacts in different States. Again, a useful focus is on the division between the ‘resource’ States of WA and Queensland and the other two populous States, NSW and Victoria.

The overall Australian economy avoided recession in part because of strong export figures, reflecting the significant contribution from the 'resource' States, particularly WA. The Chinese economy did not fall into recession, with economic growth reviving to near 8% in 2009 (Forbes, 2009). This result has contributed to the sustained export performance of WA and this, in turn, has contributed to the high value of the Australian currency. Mining investment in WA remained strong in 2009 (Figure 3) and high population growth ensures a ready supply of labour for the WA economy. House price growth in WA has become more subdued (Figure 5), with lack of affordability also easing as a consequence of the interest rate cuts that occurred in 2008-9. However, it is possible that the strength of the WA economy will again see bottlenecks in housing supply from 2010 onwards, as demand for housing surges on the back of population growth. In addition, resource demand from economies currently in recession will add to demand pressures in the near future. As the RBA raises the target cash rate, affordability of housing in WA is likely to slip backwards again.

Although Queensland is also identified as a 'resource' State, its economy is more balanced than that of WA. For example, Queensland has a significant manufacturing base and investment (ABS: 5625.0). The Queensland economy boomed on the back of the resources boom, in which the economy also benefited from the initially highest population growth among the selected States. Since the GFC, the level of private investment in Queensland has been more subdued. Unemployment also rose sharply in Queensland following the GFC. The new economic conditions have led to significantly less buoyant retail spending in Queensland. Also, the rate of home building has sharply reduced. Building approvals in Queensland in September 2009 were down to 63% of their peak at the end of 2007 (Figure 11). Strong population growth is likely to increase housing demand in the longer term, with the possibility of rising house prices if demand exceeds supply. Housing rental rates are also likely to rise. This will adversely affect affordability for the poorest sectors of society in Queensland.

While the Australian currency remains high relative to the US currency, Queensland's manufacturing and agricultural sectors will be impacted negatively, with constraint on growth and employment in these sectors.

Economic growth in Victoria before and during the GFC was lower than of the ‘resource’ States. Manufacturing investment particularly declined from the beginning of 2006 and has remained flat since (ABS: 5625.0). A significant portion of this condition can be attributed to the high market value of the Australian currency, which has made Australian goods more expensive overseas, while encouraging imports of foreign manufactured goods. The most recent aggregated economic indicators suggest that the Australian currency will remain high at least until the US economy begins to recover, with an associated stronger US currency. The Victorian economy will therefore continue to experience subdued conditions in the manufacturing sector. Unemployment can be expected to remain higher than it might otherwise be, at 5%, and remains higher than the ‘resource’ States (Figure 7).

Victoria has experienced relatively strong residential building activity throughout the economic boom and subsequent to the GFC. This may be attributed to the combination of relatively strong population growth and affordable housing, compared to NSW. The median house price for Melbourne is $100,000 lower than Sydney (Residex, 2009, Figure 5). With interest rates at a record low, there is the likelihood of increased building activity in Victoria. Housing finance commitments have risen significantly at the end of 2009, boosted particularly by first home buyer activity (ABS: 5609.0). This will result in increased residential construction activity into 2010 and a boost to State employment.

NSW has been the weakest State among those analysed over the last five years, while being the State with the largest economy and largest population. Weakness has manifested in State Final Demand (Figure 1) as well as unemployment levels (Figure 7) and retail consumption (Figure 10). Like Victoria, NSW manufacturing investment was subdued during the economic boom, partially due to the high Australian currency. Going into the boom, NSW housing affordability had been low, due to high house prices and infrastructure costs on new developments on urban fringes. This problem was exacerbated as the boom developed, with rising interest rates suppressing recovery in residential building activity in NSW. Consequently, despite high population growth, NSW building activity reached record lows in 2008. The decline in demand was correlated with economic stress for people paying home loans, with

NSW having 12 of the 20 highest mortgage delinquency areas in Australia (Chong, 2008).

In late 2009, NSW residential building activity shows signs of an upswing, subsequent to the economic stimulus measures targeting first home buyers and a return to low interest rates. It is therefore likely that building activity will make an important contribution to NSW economic growth into 2010. However, this upsurge will be tempered by impending interest rate rises. Already, there are signs of tension emerging between the need for more housing and reducing affordability as house prices rise (Residex, 2009) and interest rates begin their upward cycle.

The NSW economy continues to be adversely affected by the dual character of the Australian economy, with the strength of WA causing the RBA to raise aggregate interest rates,, despite economic vulnerability in NSW. As the world economy recovers, the current conditions will be exacerbated. Action by the RBA to temper economic activity at the aggregate level is likely to negatively impact on NSW, as occurred before the GFC. In addition, there may be a return to the chronic issues of lack of housing affordability, as well as high mortgage defaults, as occurred in NSW in the last two years (ABC, 2008b).

The Importance of Labour Supply

Prior to the GFC, the Australian economy had developed an acute labour shortage, losing its ‘reserve army of labour’, particularly in WA, where unemployment had fallen below 3% in late 2008 (ABS: 6202.0). Although this did not lead to wage breakouts that would challenge the share of value going to ‘capital’ or profits, there did emerge bottlenecks in the capital accumulation process. Some bottlenecks were exacerbated by the high mobility of some workers – neophytes in property development headed off to Dubai, for example. Demographers identified the phenomenon of ‘Gen-Y’ being more fickle and mobile than previous generations of workers. Gen-Y was alleged to have a freer attitude to work and career commitments (*News.com.au*, 2007). Regardless of generational stereotypes, this meant the inconvenience of high staff turnover and training costs for companies. It appears that this period has now ended, with Gen-Y workers being disciplined by higher unemployment levels (Ambition, 2009).

Although the rate of unemployment has not lifted much in absolute terms in any of the States, the amount is significant from the perspective of business confidence. Wage inflation has moderated, though not dramatically (ABS: 6345.0) and, perhaps more importantly, skilled labour is easier to find (and probably keep). The ACCI-Westpac *Survey of Industrial Trends* for September 2009 revealed that the difficulty of finding suitable labour had eased significantly. Furthermore, expectations of profitability have returned to normal. As the latest ACCI-Westpac survey claims:

> ...recovery in profit expectations has coincided with better actual conditions, significantly stronger activity expectations, easing unit cost pressures (ACCI, 2009: 6).

It is a rather paradoxical feature of the Australian labour market that only a small increase in unemployment appears to have significantly eased labour market tightness. It remains to be seen how significant this development will be. It is conceivable that the current economic recovery will again stimulate employment growth and reduce unemployment levels, even perhaps into record territory for recent years.

The Australian economy overall has maintained positive economic growth on the back of the soft downturn in Asian economies and China. With recovery in other developed economies, including the USA and Japan, Australian economic growth could accelerate, with consequent renewed shortages in labour supply. The condition is likely to again impact the non-resource States more significantly if the policy response from the RBA is a higher target cash rate, designed to temper economic activity and inflationary pressures.

Conclusion

The Australian economy has gone through stormy times in the last five years. The period started with analysts anticipating a sustained period of strong growth, though this anticipation turned out to be misinformed.

The cyclical nature of capitalist growth meant that the ‘stronger for longer’ thesis was undermined by the emergence of the GFC. Although several leading economies did go into recession, Australia was in a unique historic and economic position. The extraordinary growth of China in the last decade helped to shield the Australian economy from the worst effects of the GFC. Despite this, pessimism eventually resounded through the Australian economy, reaching the top of the political hierarchy. The sentiment can be characterised as ‘weaker for longer’. Yet a number of features of the current economy have helped maintain its strength, at least in macroeconomic terms. Continued strong export markets have supported the resource States and their contribution to GDP, particularly WA. Government economic stimulus and low interest rates provided the basis for a pick-up in growth in the non-resource States. A significant portion in the rebound in non-resource States is likely to be housing. NSW in particular has accumulated underlying demand that should receive greater response from supply in 2010.

Total economic activity in the Australian economy will also be stimulated by an unprecedented level of population growth. This will also contribute to the housing boom, in the context of favourable interest rates, generating jobs and promoting positive GDP figures. It is, therefore, likely that the pessimism of the recent past will soon pass, despite the impact of the export boom on the fate of the manufacturing sectors.

There remains, however, a danger that the economic and social imbalances that emerged prior to the GFC will return, perhaps fairly soon. The continuing strong demand for raw materials, particularly from WA continues to underpin the high Australian currency. Strengthening economic activity, whether in WA or in all the States, will tend to have an uneven effect on both the States and on their respective economic and social conditions. Housing affordability, as one primary example, remains relatively low in all States. Although this has improved in the context of the low interest rate environment, the direction of interest rate movements in the near future will be up, with affordability therefore likely to deteriorate.

The conditions for a cycle of boom and bust in the Australian economy are building again. In the nature of free market dynamics, and belated government responses, there will be those that gain and those that experience disadvantage. The divide of advantage and disadvantage crosses the State regions as well as the social groups within them.

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