

## **THE RECESSION: A PROFILE**

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The following five key indicators of economic performance help give us some understanding of the breadth and depth of the recession.

### **Gross Domestic Product**

Gross Domestic Product (GDP) is the principal measure of a nation's income, and economists conventionally consider a recession to have begun after two consecutive quarters of negative growth in GDP. Quarterly estimates of GDP have been negative since March 1991, but appear to have picked up a little in the December quarter of 1991/92. However, the 0.4% growth figure for that quarter should be treated cautiously for two reasons. Firstly, whilst it does represent an increase on the immediately preceding September quarter of 1991/92, a comparison with the same period of the previous year (which is a more indicative comparison) shows negative growth of 1.1%. Secondly, quarterly data is often unreliable and subject to major revision as a consequence.

The more important issue is how the prospects for growth relate to broader conditions in the international economy. Whilst GDP growth in Australia has obviously stalled in the 1990/91 period, the OECD average is also slowing down, reflecting a larger concern that the global capitalist economy may also be headed for recession. Slower growth

rates for Australia's chief trading partners (Japan and the USA) reduce the already unlikely chance of a trade led recovery.

**Table 1: GDP Growth in Australia and the OECD, 1986-91**

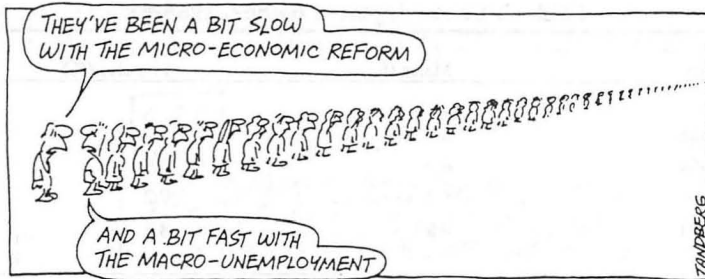
Australia Year	(%)	OECD Average Year	(%)
1986/87	2.7	1987	3.5
1987/88	4.8	1988	4.5
1988/89	3.7	1989	3.5
1989/90	3.6	1990	2.3
1990/91	-0.9	1991 1st Qtr	0.9#
Dec Qtr 91/92	-1.1	1991 2nd Qtr	0.6#

\* Growth on previous December quarter.

# Growth on 1st and 2nd quarters of previous year, respectively.

## Unemployment

Monthly unemployment figures have remained above 9% since January 1991, and are apparently climbing, with January 1992 reaching 11.2%.



**Table 2: Unemployment Rate, 1987-92**

Year	Month	%
1987/88		7.4
1988/89		6.1
1989/90		6.7
1990/91		9.3
1991/92	July	9.5
	August	9.5
	September	10.0
	October	9.4
	November	9.6
	December	10.6
	January	11.2

Women fared worse than men in the pre-recession period of 1988 to 1990. However, between 1990 and 1991, men have become unemployed at a rate more than double that of women (a jump of 3.1% on the previous year as compared to a 1.3% increase for women). This may well be the result of a fall in the participation rate for women as the recession deepens.

**Table 3: Unemployment by Sex, 1988-91**

Year	Males (%)	Females (%)
1988	6.8	7.9
1989	6.0	6.9
1990	6.8	7.2
1991	9.9	8.5

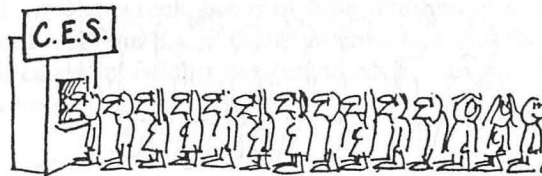
The most adversely affected group are the young, with people in the 15-19 year age group averaging an unemployment rate of nearly 29%. The 20-24 year age group is comparatively better off, with the average rate of unemployment standing at 16.4%.

**Table 4: Youth Unemployment, January 1992 \***

Age	%	Age	%
15	30.3	20	18.4
16	45.1	21	17.5
17	32.7	22	17.1
18	29.9	23	15.0
19	22.6	24	14.1
15-19	28.9	20-24	16.4

\* Attending neither school nor a tertiary education institution full-time

Whilst older age groups enjoy a much lower rate of unemployment than the young, their duration of unemployment is much higher (with an average duration of one year for people in the 35-54 age group). However, this average duration of unemployment has fallen since 1989 for the older age groups, whilst rising for the 15-24 year age group.

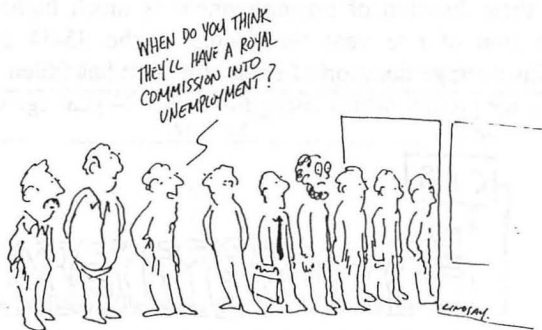


**Table 5: Average Duration of Unemployment  
by Age and Sex, 1989-1992 (weeks)#**

Age Group	Male 1989	Male 1992	Female 1989	Female 1992	Persons 1989	Persons 1992
15-19	17.0	22.9	14.8	20.6	15.9	21.9
20-24	36.3	38.5	32.3	32.1	34.5	36.0
25-34	56.5	47.5	37.5	35.5	48.4	43.1
35-54	69.6	53.3	41.3	51.7	56.8	52.7

# Based on January figures for each year.

Over the fifteen month period between August 1990 and November 1991, job vacancies have almost halved (down by 48%), with an average of 33 applicants for each position available (November 1991). This average disguises the numbers of people who have given up the search for work as futile, as well as the social and spatial impact (with youth unemployment being much higher than the national average, and regions such as NSW faring better than average).



**Table 6: Job Vacancies, 1990-91**

17 August 1990	48100
15 November 1991	24900

**Table 7: Unemployed to Vacancy Ratio\***

Year	
1987/88	10.7
1988/89	7.7
1989/90	8.7
1990/91	20.9
1991/92 August	31.5
1991/92 November	32.5

\* Number of unemployed (original) divided by the number of vacancies.

## Inflation

The government has been quite proud of its record on inflation over the last 18 months, down to an annual average equivalent to 1.5% for the December quarter of 1991/92. This decline is largely a consequence of the recession itself, which has cut demand for goods and services. A lower inflation rate has pleased foreign investors in the \$A, local stock brokers, and some exporters, but is of little reassurance to any whose income is not keeping in line with the inflation rate, and should not be used as justification for holding back on necessary fiscal and monetary expansion policies.

**Table 8: Inflation, 1987-91\***

Year	%
1987/88	7.3
1988/89	7.1
1989/90	8.2
1990/91	5.3
September Qtr 1991/92	3.3
December Qtr 1991/92	1.5

\*Growth on same period of the previous year

## Bankruptcy

The four quarters from March 1990/91 to December 1991/92 saw a 55% increase in the numbers of declared bankruptcies compared with the previous four quarters. In the December quarter of 1991/92, 4137 individual bankruptcies were declared compared with a quarterly average of 2041 for the three years from 1987/88 to 1989/90. This represents an increase of 103%. Whilst medium and large sized companies have suffered (witness the collapse of companies such as Compass, Panfida and Norman Ross, and the forced rationalisation of many big businesses such as the ANZ, Alcoa and AWA), small businesses have suffered the most, being unable to draw on profits and resources of previously bountiful years.

**Table 9: Bankruptcy, 1987-91\***

Year	%
1987/88	13.5
1988/89	-12.6
1989/90	15.0
1990/91	53.1
Sept Qtr 1991/92	72.2
Dec Qtr 1991/92	41.5

\* Percentage increase on same period in previous year.

## Investment

Expenditure on new capital equipment has declined substantially since the December quarter of 1989/90, and appears to be worsening. Whilst an increase in investment expenditure is necessary for a recovery, it often lags behind other indicators such as dwelling construction. Unfortunately, expenditure on dwelling construction has also declined, by 16% from the boom year of 1988-89 to 1990-91, and continues to descend (with a 7% fall measured between the two December quarters of 1990/91 and 1991/92).

**Table 10: New Capital Expenditure, 1987-91 (\$ Millions)**

Year	%
1987/88	10.5
1988/89	14.1
1989/90	-1.7
1990/91	-7.0
September Qtr 1991/92	-12.5*
December Qtr 1991/92	-14.5*

\* Indicates growth on previous September and December quarterly figures, respectively.

Private sector expenditure on equipment has fallen steadily since 1988/89, with a 12% decline registered between the two December quarters of 1990/91 and 1991/92. Non-dwelling construction has slowed since 1989/90, with a 23% fall recorded between the same two December quarters.





**Table 11: Private Fixed Capital Expenditure,  
1987-1991 (\$ Millions)**

Year	Equipment	Non-dwelling Construction	Dwelling Construction
1987/88	19329	9922	10113
1988/89	23355	10689	12297
1989/90	22562	11091	11671
1990/91	20046	9697	10302
December Qtr 1990/91	5447	2679	2795
December Qtr 1991/92	4580	2055	2608

## Government Policy Responses

The Prime Minister's February statement announced some initiatives to deal with the recession, including:

- a) \$2.3 billions in fiscal expenditure, including \$1 billion to be spent on road and rail transport, an increase in the Family Allowance Supplement, a reduction in sales tax on new cars from 20% to 15%, \$700 millions on increasing technical education, and adjustment assistance for farmers and the textiles, clothing, and footwear industry;
- b) Significant business concessions, including a faster rate of depreciation on capital investment (but less than the 5/3 depreciation allowance which was abolished in 1988);
- c) Tax concessions which allow private companies to issue bonds for the financing of land transport and electricity generation investment projects (previously largely the domain of governments).

However, despite these measures, policies continue to be constrained by at least three factors.

1. Treasury and Reserve Bank officials appear more concerned with lowering the current account deficit (CAD) than dealing with the

external structural constraints to growth, such as the CAD, require external policy instruments. However, blunt domestic policy instruments have been used as the front line attack (that is, relatively tight fiscal, monetary, and wages policies). A floating exchange rate was presumed to act as a balance on the external accounts, yet a burgeoning level of foreign debt and a growing CAD have become sources of major concern. The Government's high interest rate regime in the eighties encouraged a large increase in foreign borrowing's. In short, domestic monetary policy played a considerable role in the developing external accounts crisis.

2. The deregulated financial environment has left Australia as a small open economy, highly susceptible to international economic forces, reducing the governments discretionary macro fine- (or even rough-) tuning abilities. The management of economic policy under these conditions is severely constrained by the anticipated responses of speculators in foreign exchange markets.

3. The final constraint is the bureaucracy, which has spent the past eight years neutering the Government through the encouragement of a level playing field ideology. The Treasury, the Reserve Bank, and the Finance department (three of the most influential bodies of economic policy advice) have encouraged lean, mean public sector strategies which have left the Government with no suitable mechanism (that is, the public sector) to intervene in the market with any effectiveness.

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