

First Friday Webinar



The Aussie Economy: Good Times or Stormy Waters?

BTalk's **Phil Dobbie** and **Steve Keen**, Associate
Professor, University of Western Sydney



Welcome to First Friday



Phil Dobbie
BNET.com

- Ask questions.
- Share your thoughts.
- Make this an interactive session.





Aussie Economy: Good Times or Stormy Waters?



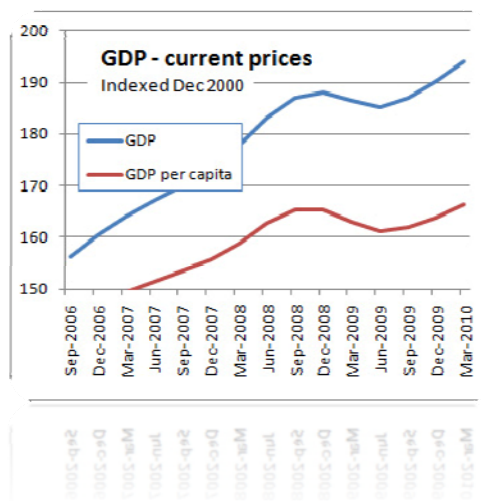
Steve Keen
Uni Western Syd

- Associate Professor – University of Western Sydney
- Author of Debunking Economics
- Maintains debt-deflation blog

www.debtdeflation.com/blogs

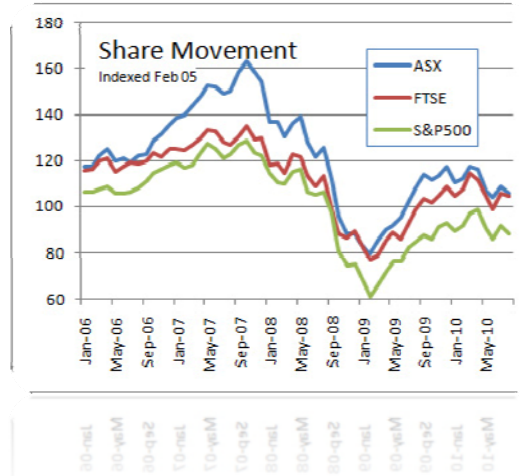


Aren't good times here again?





Aren't good times here again?



Growing debt necessary in a growing economy...

“If income is to grow, the financial markets ... must generate an aggregate demand that, aside from brief intervals, is ever rising. For real aggregate demand to be increasing, ... it is necessary that current spending plans, summed over all sectors, be greater than current received income

and that some market technique exist by which aggregate spending in excess of aggregate anticipated income can be financed.

It follows that over a period during which economic growth takes place, at least some sectors finance a part of their spending by emitting debt or selling assets.” (Minsky 1982, p. 6; emphasis added)

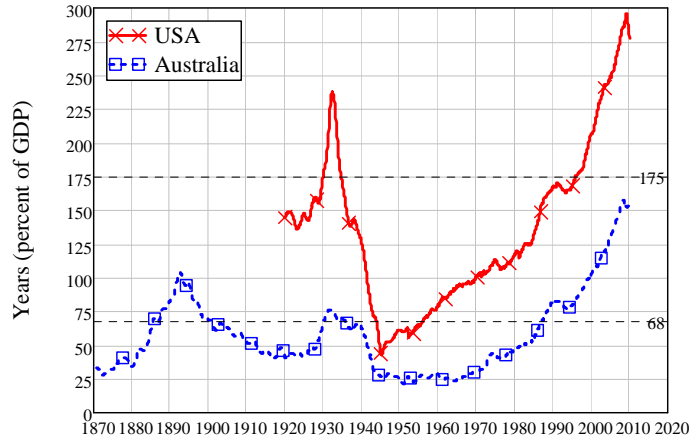
But not when it finances speculation rather than investment...





This is the biggest debt bubble in history

Private debt to GDP ratios



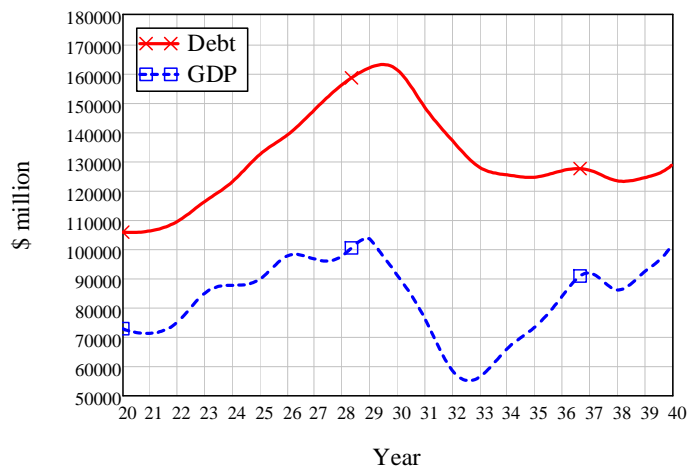
Flow of Funds Table L1+Census Data; RBA Table D02



Debt and GDP

Rising debt winds the economy up
 Falling debt winds it down...
 Spending = sum of GDP plus change in debt
 Illustration: 1920-1940

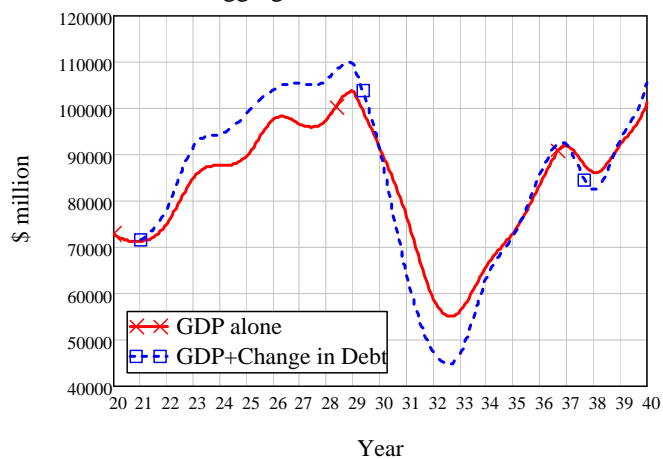
US Private Debt and GDP 1920-1940





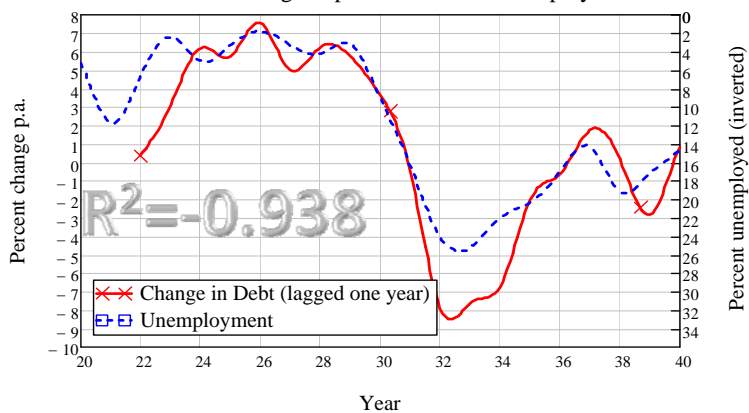
Aggregate Demand

US Aggregate Demand GDP 1920-1940



Aggregate Demand and unemployment 1920-1940

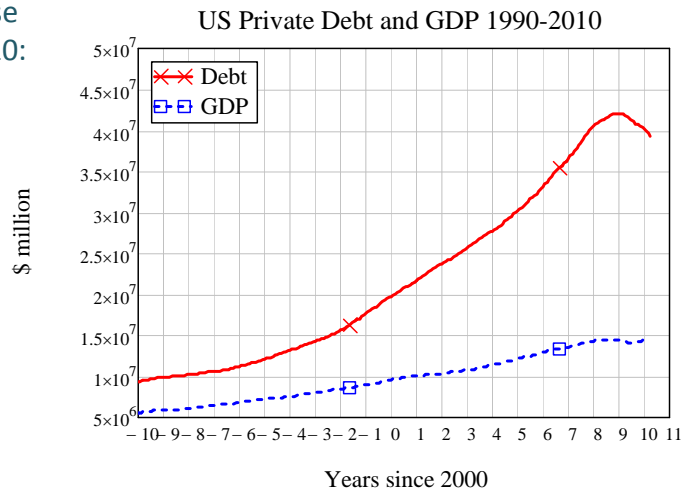
Correlation of change in private debt and unemployment





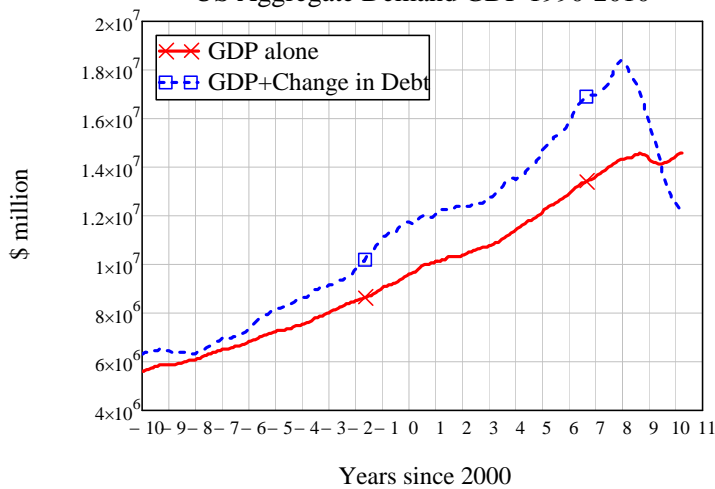
Debt and GDP

Same exercise for 1990-2010:



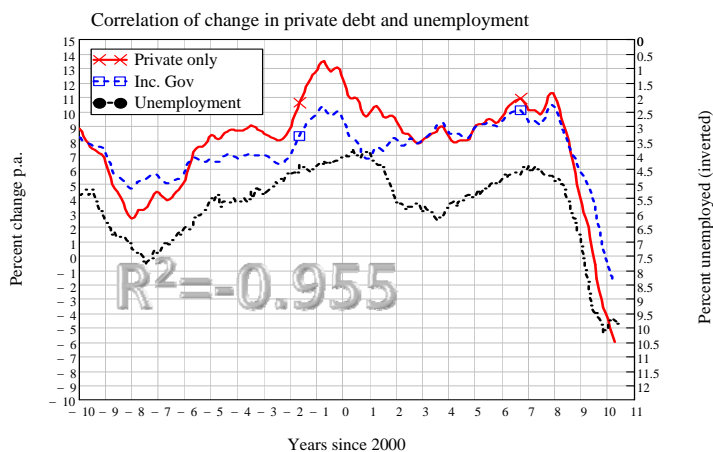
Aggregate Demand

US Aggregate Demand GDP 1990-2010

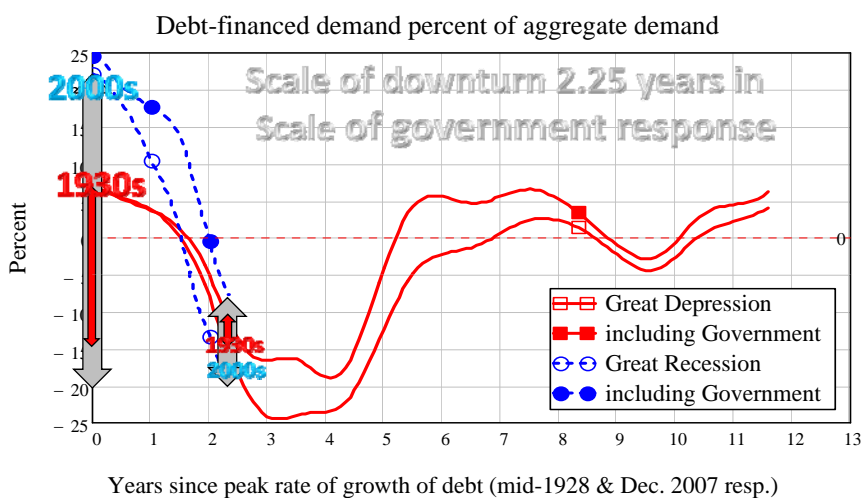




Aggregate Demand and unemployment 1990-2010



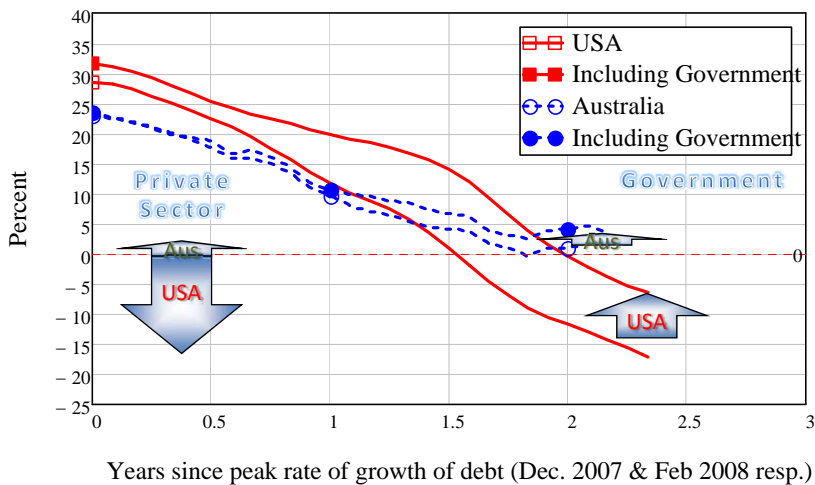
Debt-financed fraction of aggregate demand is... $\frac{\Delta Debt}{GDP + \Delta Debt}$





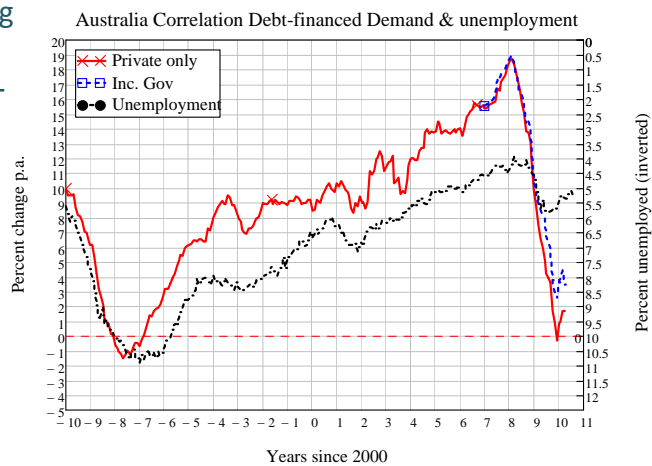
Australia is doing better because of less deleveraging

US vs Australia Debt-financed aggregate demand



Debt financed demand & unemployment, Australia

Less deleveraging here but same change in debt—unemployment correlation





How deleveraging works

- It's a second order thing...
- If demand = GDP + change in debt
- The growth in demand is
 - Change in GDP + change in change in debt
 - Not just debt, or the rate of growth of debt
 - But how rapidly that rate of growth is changing...



How deleveraging works

- A numerical example
 - In “dream world” where GDP growth unaffected...

Variable/Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Nominal GDP	1,000	1,100	1,210	1,331	1,464	1,611
Growth rate of Nominal GDP	10%	10%	10%	10%	10%	10%
Real growth rate	5%	5%	5%	5%	5%	5%
Inflation Rate	5%	5%	5%	5%	5%	5%
Private Debt	1,250	1,500	1,650	1,650	1,485	1,411
Growth rate of Private Debt	20%	10%	0%	-10%	-5%	0%
Change in Private Debt	250	150	0	-165	-74	0
Nominal Aggregate demand (GDP + Change in Debt)	1,250	1,250	1,210	1,166	1,390	1,611
Change in Aggregate Demand		0	-40	-44	224	221
Change in Aggregate Demand Percent		0%	-3%	-4%	16%	14%





USA then...

Variable\Year	1929	1930	1931	1932	1933	1934	1935
GDP	103,600	91,200	76,500	58,700	56,400	66,000	73,300
Change in Nominal GDP %	6.0%	-12.0%	-16.1%	-23.3%	-3.9%	17.0%	11.1%
Inflation Rate %	-1.2%	0.0%	-7.0%	-10.1%	-9.8%	2.3%	3.0%
Private Debt	161,800	161,100	148,400	137,100	127,900	125,300	124,500
Debt Growth Rate %	3.7%	-0.4%	-7.9%	-7.6%	-6.7%	-2.0%	-0.6%
Change in Debt	5,700	-700	-12,700	-11,300	-9,200	-2,600	-800
GDP + Change in Private Debt	109,300	90,500	63,800	47,400	47,200	63,400	72,500
Change in Private Aggregate Demand %	0.0%	-17.2%	-29.5%	-25.7%	-0.4%	34.3%	14.4%
Government Debt	30,100	31,200	34,500	37,900	40,600	46,300	50,500
Change in Government Debt	-100	1,100	3,300	3,400	2,700	5,700	4,200
GDP + Change in Total Debt	109,200	91,600	67,100	50,800	49,900	69,100	76,700
Change in Total Aggregate Demand %	0	-17,600	-24,500	-16,300	-900	19,200	7,600
Change in Total Aggregate Demand %	0.0%	-16.1%	-26.7%	-24.3%	-1.8%	38.5%	11.0%



USA now.

Variable\Year	2006	2007	2008	2009	2010
GDP	12,915,600	13,611,500	14,291,300	14,191,200	14,277,300
Change in Nominal GDP %	6.3%	5.4%	5.0%	-0.7%	0.6%
Change in Real GDP %	2.7%	2.4%	2.3%	-2.8%	0.2%
Inflation Rate %	4.0%	2.1%	4.3%	0.0%	2.6%
Private Debt	33,196,817	36,553,385	Slowdown in debt can cause crisis		40,185,976
Debt Growth Rate %	9.6%	10.1%			-4.4%
Change in Debt	2,914,187	3,356,568	4,043,201	1,448,895	-1,859,505
GDP + Change in Private Debt	15,829,787	16,968,068	18,334,501	15,640,095	12,417,795
Change in Private Aggregate Demand %	0.0%	7.2%	8.1%	-14.7%	-20.6%
Government Debt	6,556,391	6,893,467	7,321,592	8,615,051	10,167,585
Change in Government Debt %	478,851	337,076	428,125	1,293,459	1,552,534
GDP + Change in Total Debt	16,308,638	17,305,144	18,762,626	16,933,554	13,970,329
Change in Total Aggregate Demand	0	996,506	1,457,482	-1,829,072	-2,963,225
Change in Total Aggregate Demand %	0.0%	6.1%	8.4%	-9.7%	-17.5%
Mortgage Debt	10,042,429	11,157,757	11,954,054	11,903,391	11,683,114
Change in Mortgage Debt	1,179,274	1,115,328	796,297	-50,663	-220,277





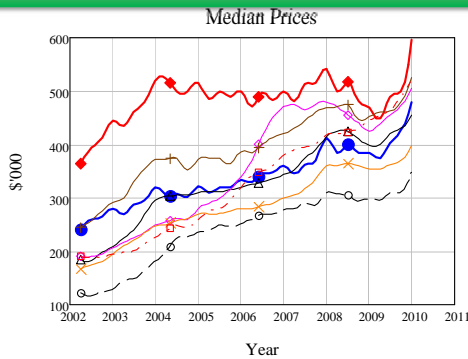
Australia now.

Variable\Year	2006	2007	2008	2009	2010
GDP	966,032	1,039,953	1,134,431	1,237,884	1,257,016
Change in Nominal GDP %	8.1%	7.7%	9.1%	9.1%	1.5%
Change in Real GDP %	3.2%	2.6%	4.8%	2.3%	1.3%
Inflation Rate %	2.8%	3.3%	3.0%	3.7%	2.1%
Private Debt	1,321,900	1,510,600	1,770,149	Australia still not deleveraging	
Debt Growth Rate %	13.5%	14.3%	17.2%		
Change in Debt	157,420	188,700	259,549	134,491	10,744
GDP + Change in Private Debt	1,123,452	1,228,653	1,393,980	1,372,375	1,267,760
Change in Private Aggregate Demand %	0.0%	9.4%	13.5%	-1.5%	-7.6%
Government Debt	14,973	17,174	20,871	32,140	69,749
Change in Government Debt %	-5,553	2,201	3,697	11,269	37,609
GDP + Change in Total Debt	1,117,899	1,230,854	1,397,677	1,383,644	1,305,369
Change in Total Aggregate Demand %	0.0%	10.1%	13.6%	-1.0%	-5.7%
Mortgage Debt	722,844	819,095	916,897	998,628	1,076,425
Change in Mortgage Debt	81,618	96,251	97,802	81,731	77,797



What about house prices?

Booming...?



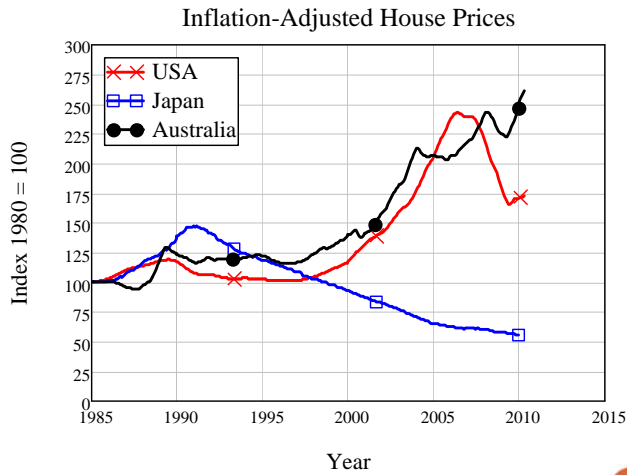
- ◆ Sydney
- Melbourne
- △ Brisbane
- ◇ Perth
- × Adelaide
- + Canberra
- Hobart
- Darwin





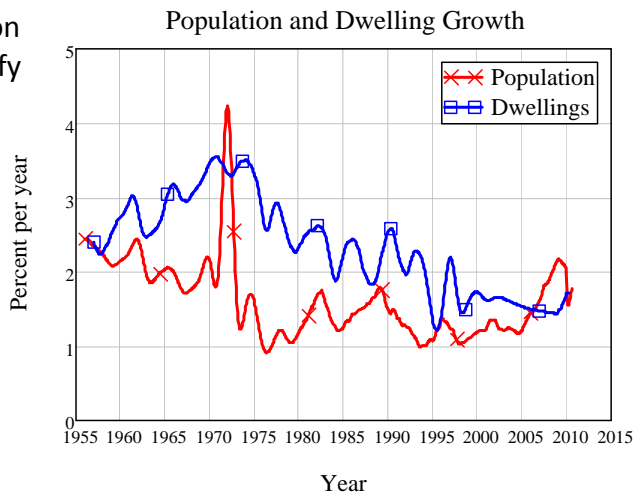
What about house prices?

- Far higher than US, Japan
- But only because their price bubbles have already crashed
- Notice our prices below USA 2005-08



What about house prices?

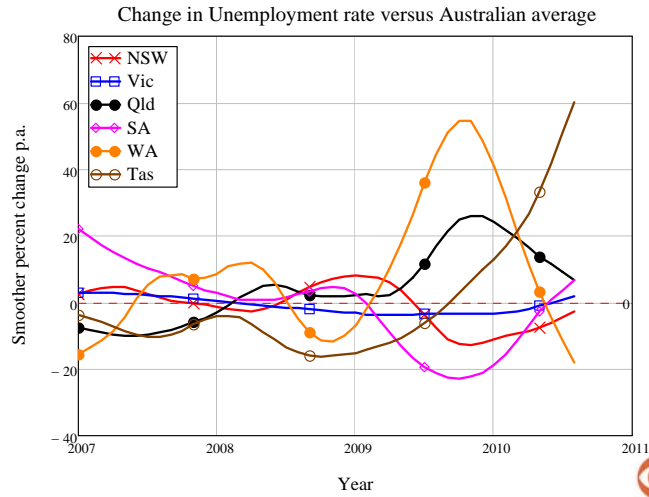
- Can population pressure justify high prices?...
- Dwelling growth exceeded population growth every year except 2007-10





What about house prices?

- And Chinese demand?
- We beat GFC because of Victoria and housing
- Chinese growth only kicked in mid-2010



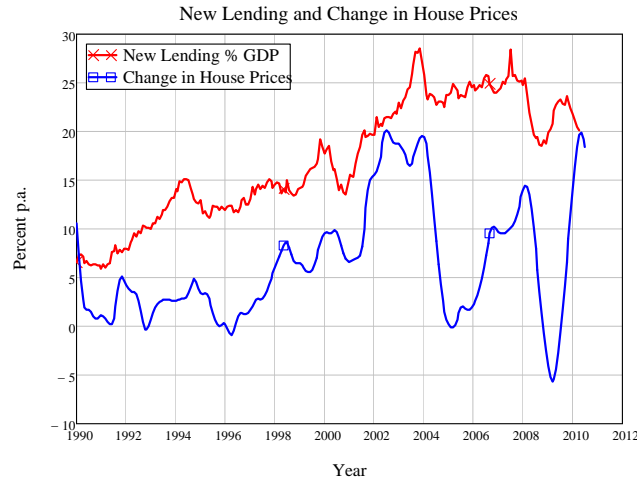
- Biggest growth industries stimulus and FHVB driven
- Chinese-driven demand a late arrival

Industry	Growth March 2009-May 2010	Growth Rate
Agriculture	20,503	5.7%
Mining	20,659	13.0%
Electricity	-7,923	-5.5%
Construction	29,935	3.0%
Wholesale	11,759	3.0%
Retail	-32,859	-2.7%
Accommodation & Food	49,279	6.9%
Transport	-2,513	-0.4%
Information Technology	-7,753	-3.5%
Finance	-1,982	-0.5%
Real Estate	23,287	13.4%
Professional	78,640	10.4%
Administration	15,609	4.4%
Education	28,853	3.6%
Health	47,060	4.0%
Arts	-13,156	-6.2%
Other Services	17,641	4.0%
Total Victoria	109,894	4.1%
Total Australia	158,710	2.1%



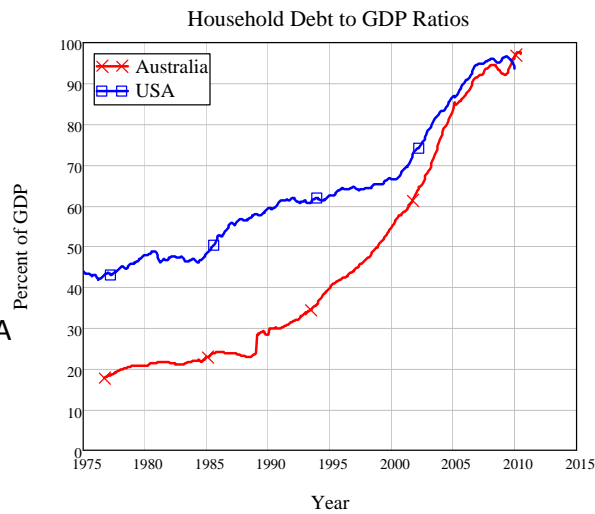
What about house prices?

- Or does financial pressure explain it?



What about house prices?

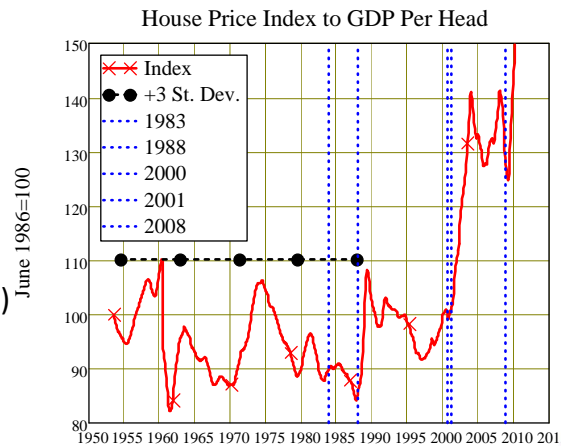
- Just like the USA...
- Australian households now more indebted than USA
- Debt servicing costs 1.5 times as high here as in USA





What about house prices?

- And government manipulation of the market?
- Prices bubbled when FHOG introduced or doubled...
- No trend in real prices prior to 1st First Home Owners Scheme (1983)



What about house prices?

- But what about “underlying demand”?
- Legitimate measurement of social need
- Illegitimate measure of demand pressure on house prices:
- (National Housing Supply Council 2010, p. 66)
 - “2008 gap size =
 - additional private rental dwellings required in 2008 to increase the number of vacant private rental dwellings to 3 per cent of the total private rental stock
 - + **dwellings required to accommodate people who are homeless and sleeping rough** or staying with friends and relatives
 - + **dwellings required to house marginal residents of caravan parks.”**





Summary

- Past 40 years of economic history driven by leveraging up
 - Sustained false boom since 1987 Stock Market Crash
- Foreseeable future driven by deleveraging
 - Private sector now debt-saturated
- There has never been a post-WWII recovery without rising debt
 - Sign of inherently sick economy
 - But absence of rising debt now means little likelihood of sustained economic “recovery”
- Ultimately have to confront excessive debt
 - “Debts that can’t be repaid, won’t be repaid” (Michael Hudson)
 - Debt moratoria better than honouring debt that should never have been issued
- Structural problems (excessive financial sector, trade imbalance) remain even if debt problems confronted



Thanks Steve!

Any questions?



Steve Keen



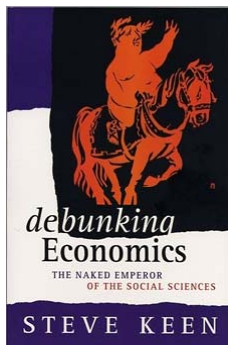


Complete the Questionnaire



Phil Dobbie

In the draw to receive a FREE copy of
Debunking Economics



Steve Keen

