



Melbourne Economic Forum Budget 2022 – what's the economic strategy?

Danielle Wood, CEO, Grattan Institute
5 April 2022

Budget 2022-23

The headlines

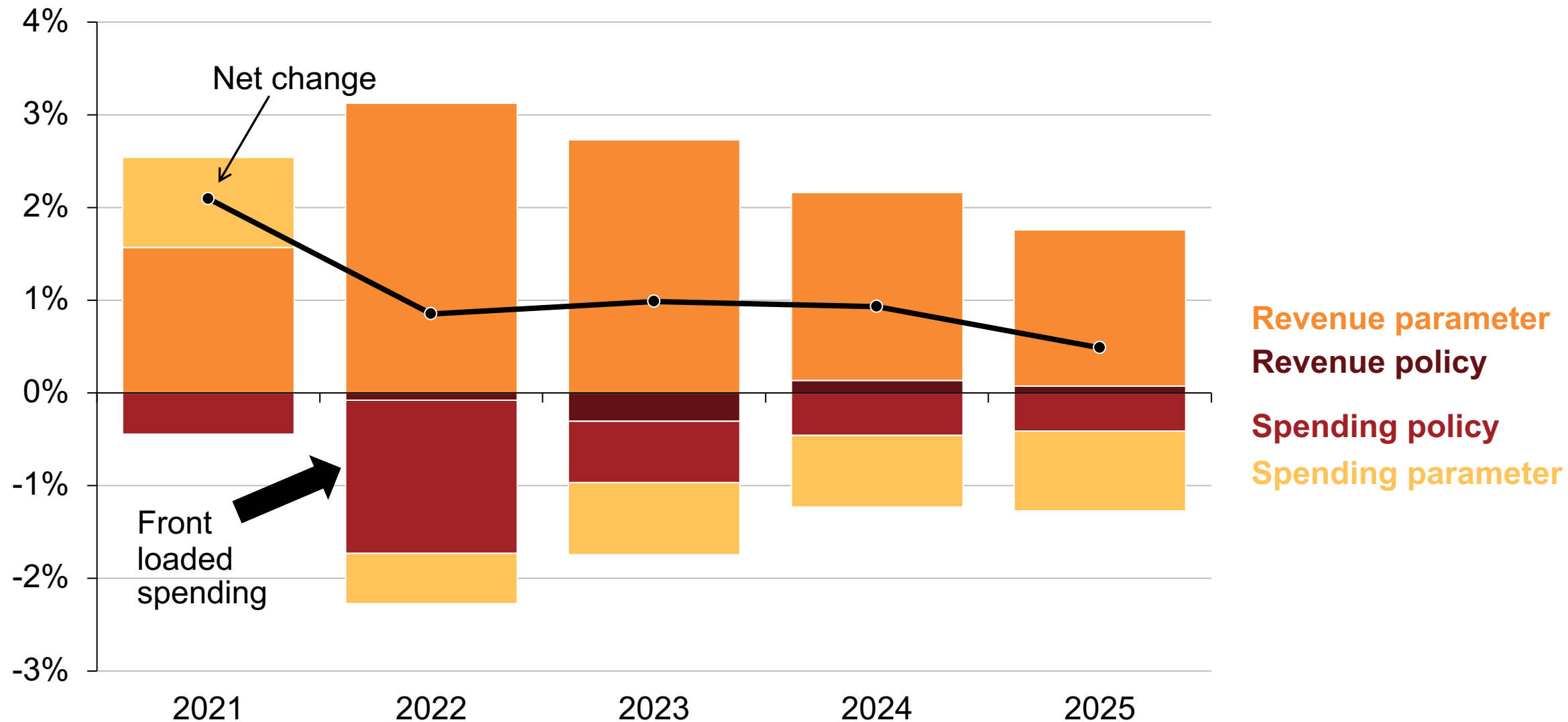
- Huge revenue windfall, some banked, some spent
- Spending very front end loaded – supercharged tax offset, fuel excise
- Huge spending outside the forward estimates – defence, transport, regional infrastructure

The economic strategy

- Great news on unemployment, prices are up, wages growth coming?
- Why stimulus now?
- Why more infrastructure spend?
- Structural budget deficits remain a challenge for another day (and are almost certainly bigger than we are being told)

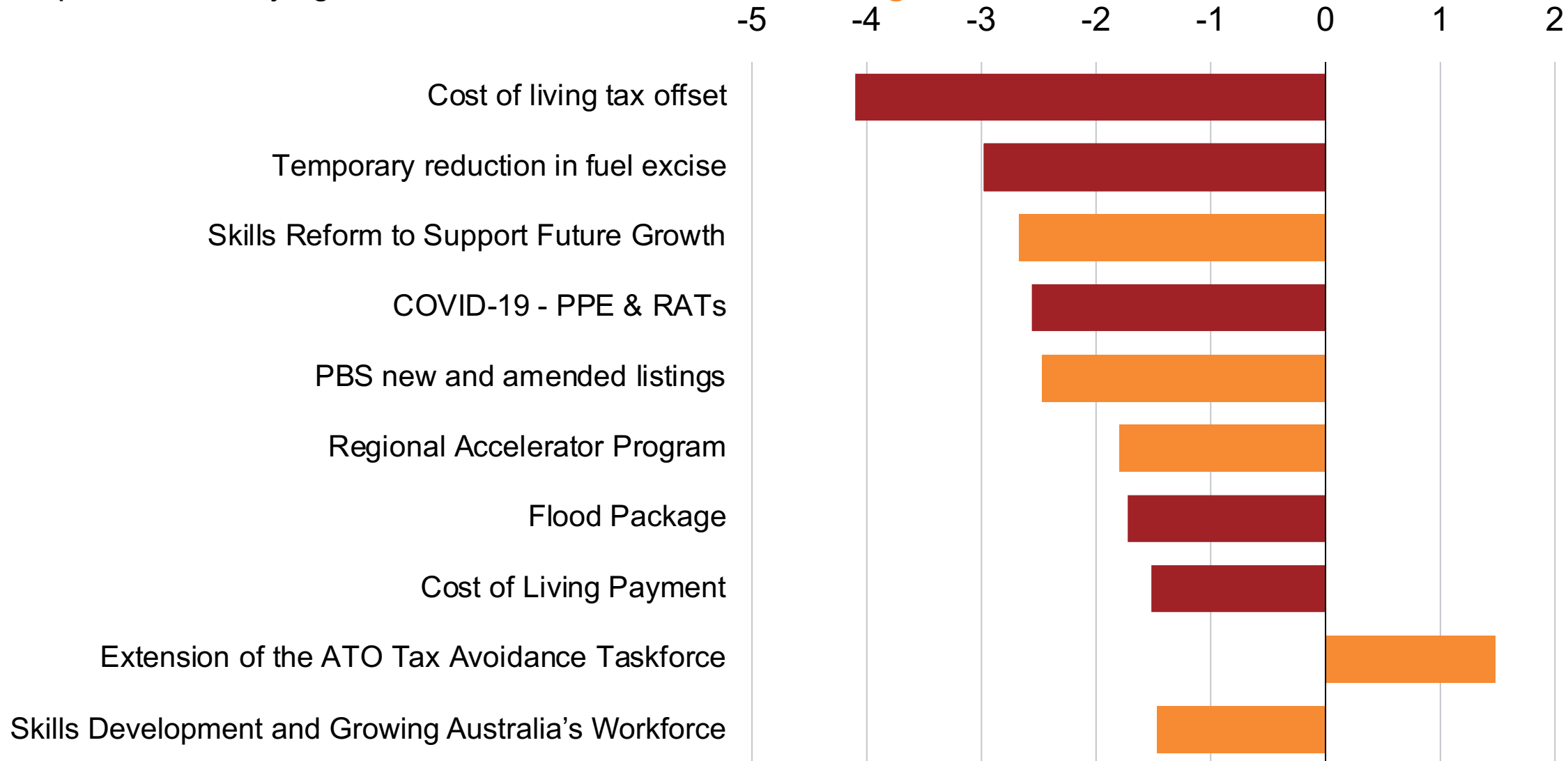
Budget 2022 in a single chart: big revenue windfalls and short-term spending

Change in budget forecast from previous forecast, % of GDP



Many of the biggest measures are short term measures

Impact on underlying cash balance for **short-term** and **longer-term** measures, 2021-22 to 2025-26, \$ bil

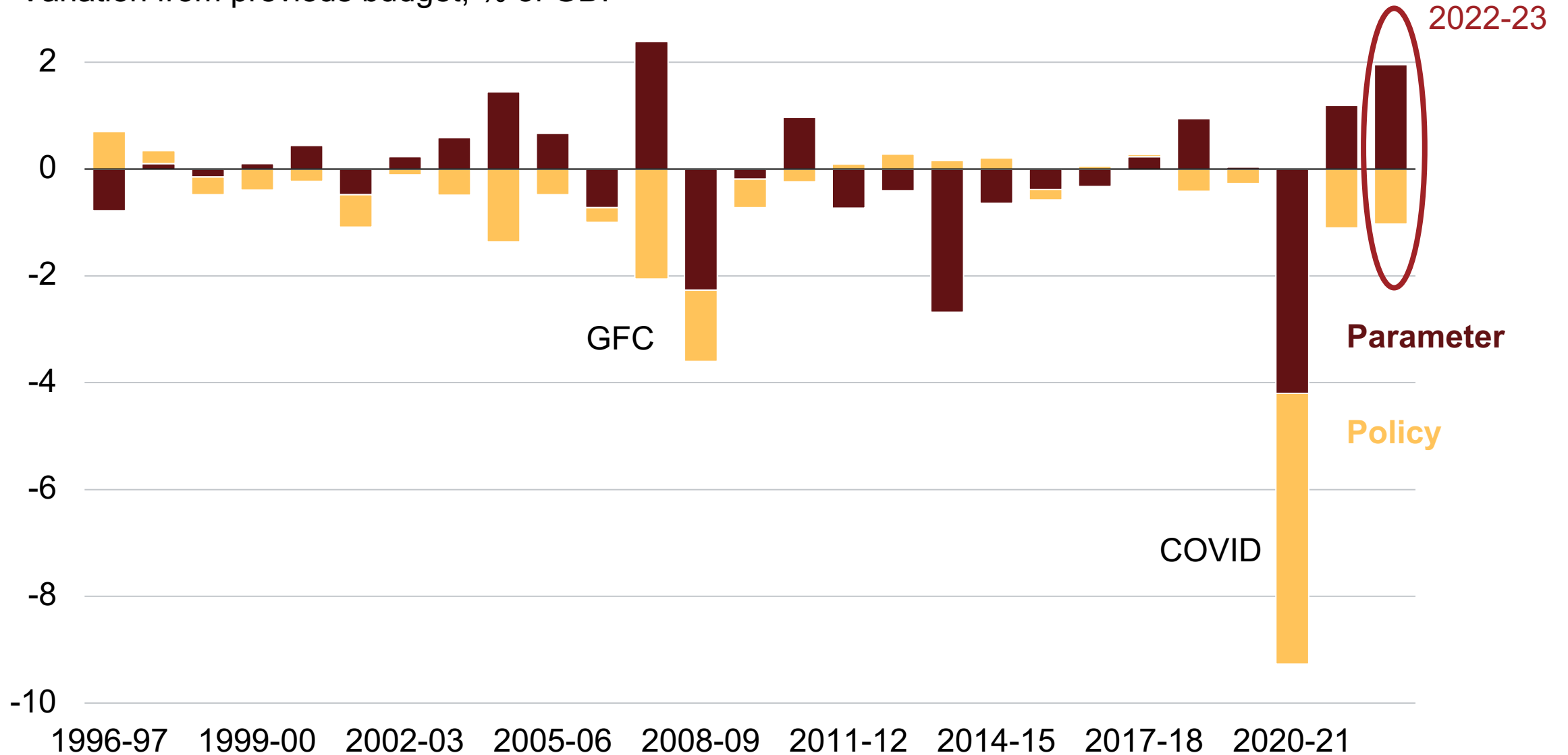


Note: Top 10 largest measures by absolute impact on UCB.

Source: PBO, 2022-23 Budget Snapshot, Fig 4C.

This is extraordinary historically: both in terms of size of windfall and scale of policy 'spends' (outside of crisis)

Variation from previous budget, % of GDP



But BIG spending outside the forwards

\$17.9 billion transport infrastructure, inc:

- \$3.1 Melbourne Intermodal terminals
- \$2.7 billion Brisbane to Gold Coast and Sunshine Coast Faster Rail
- \$2.3 billion North-South corridor in Adelaide
- \$1 billion Sydney to Newcastle Faster Rail upgrade

\$21 billion in regional transformation – the price of net zero?

- \$7.1 billion over 11 years for ‘transformative infrastructure projects in regions’ (focused on Central and North Queensland, Hunter, NT, Pilbara)
- \$7.4 billion new and expanded dam projects over 12 years (including \$5.4 billion for Hell’s Gate Dam)
- \$2 billion over 5 years regional accelerator program
- \$2 billion North Australian Infrastructure Facility
- \$1.3 billion in improved comms (satellites) – regional Australia

Defence

- Add 18,500 personnel by 2040 – cost at least \$38 billion
- \$1 billion Self Propelled Howitzers and Armoured Ammunition Resupply Vehicles
- \$3.5 billion Main Tank Battle Upgrades

Turbocharging these regional economies will enable people to get the job they want and to pursue their dreams....

This will attract new sources of investment to Australia, further unlocking the potential of our regions and supporting the industries that earn the export dollars that make us wealthier and stronger.



Budget 2022-23

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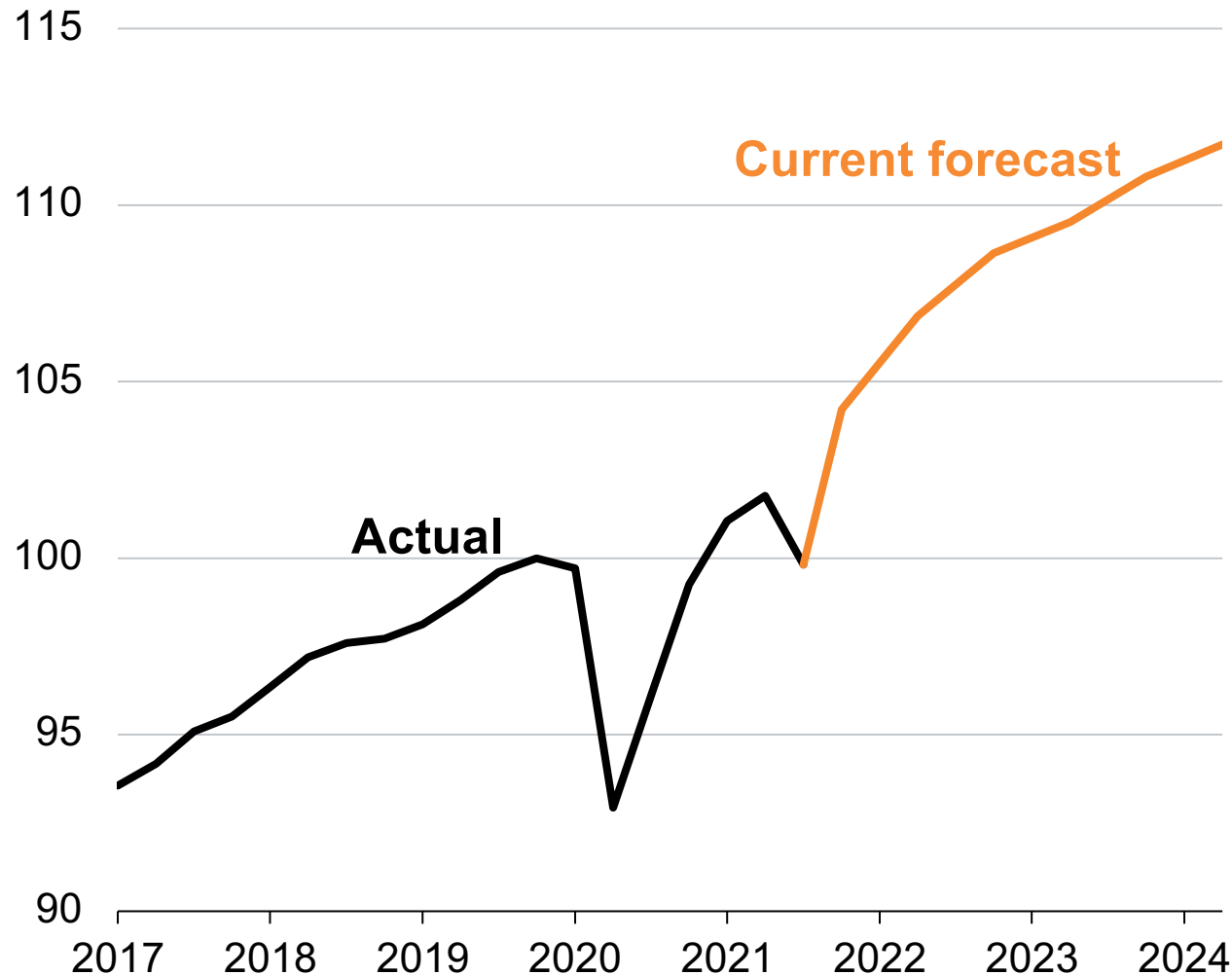
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The good news: the economic fundamentals are strong (at least for now)

GDP index, Dec 2019 = 100



We have overcome the biggest economic shock since the Great Depression.

Our recovery leads the world. Faster and stronger than the United States, the United Kingdom, Canada, France, Germany, Italy and Japan.



Budget speech
29, March 2022

Consumer spending

3.5% 2021-22,
5.75% 2022-23

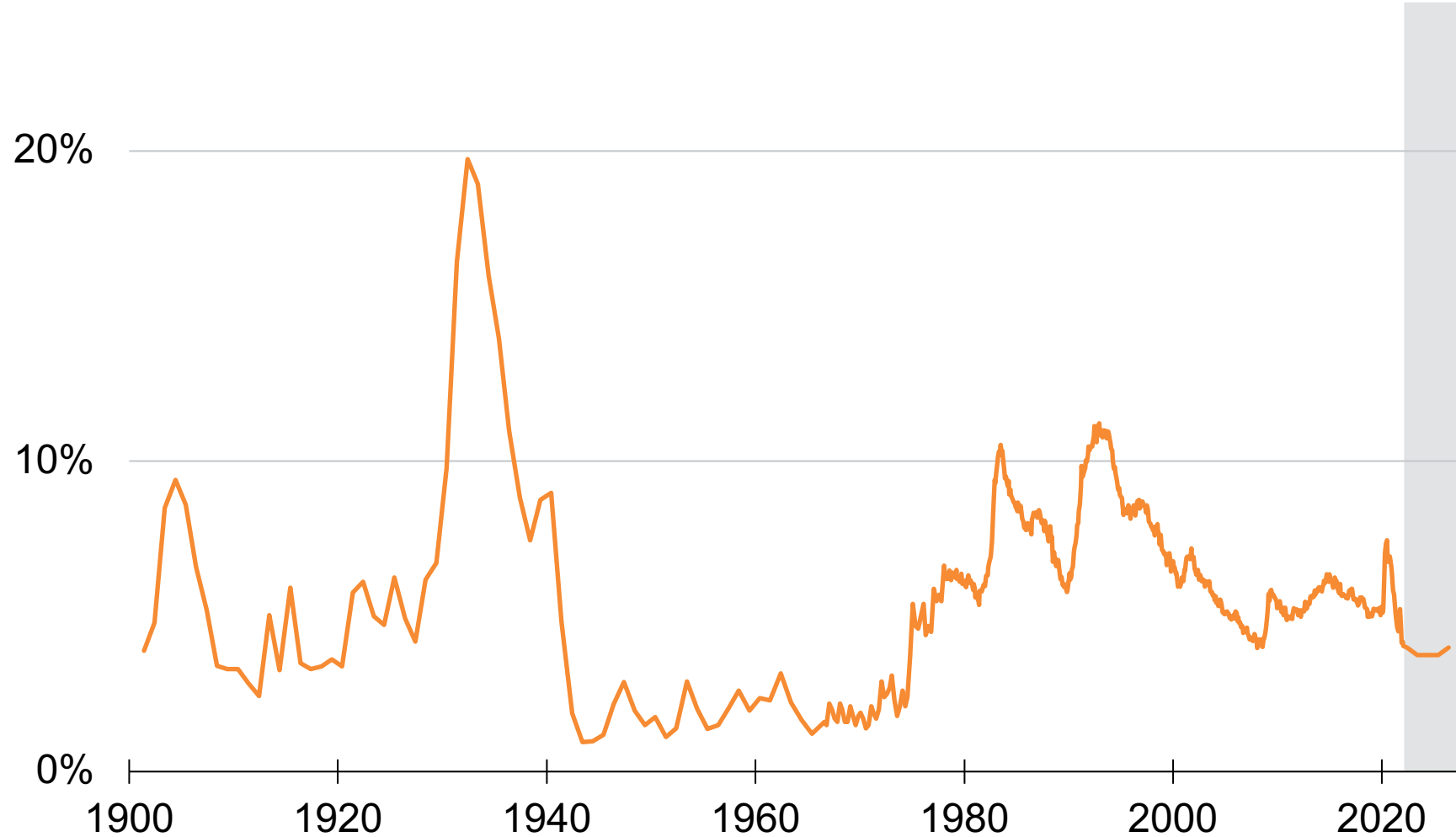
Investment

5.5% 2021-22
9% 2022-23

And unemployment forecast to reach 50 year low within months

Unemployment rate, 1901 to 2026

Forecast

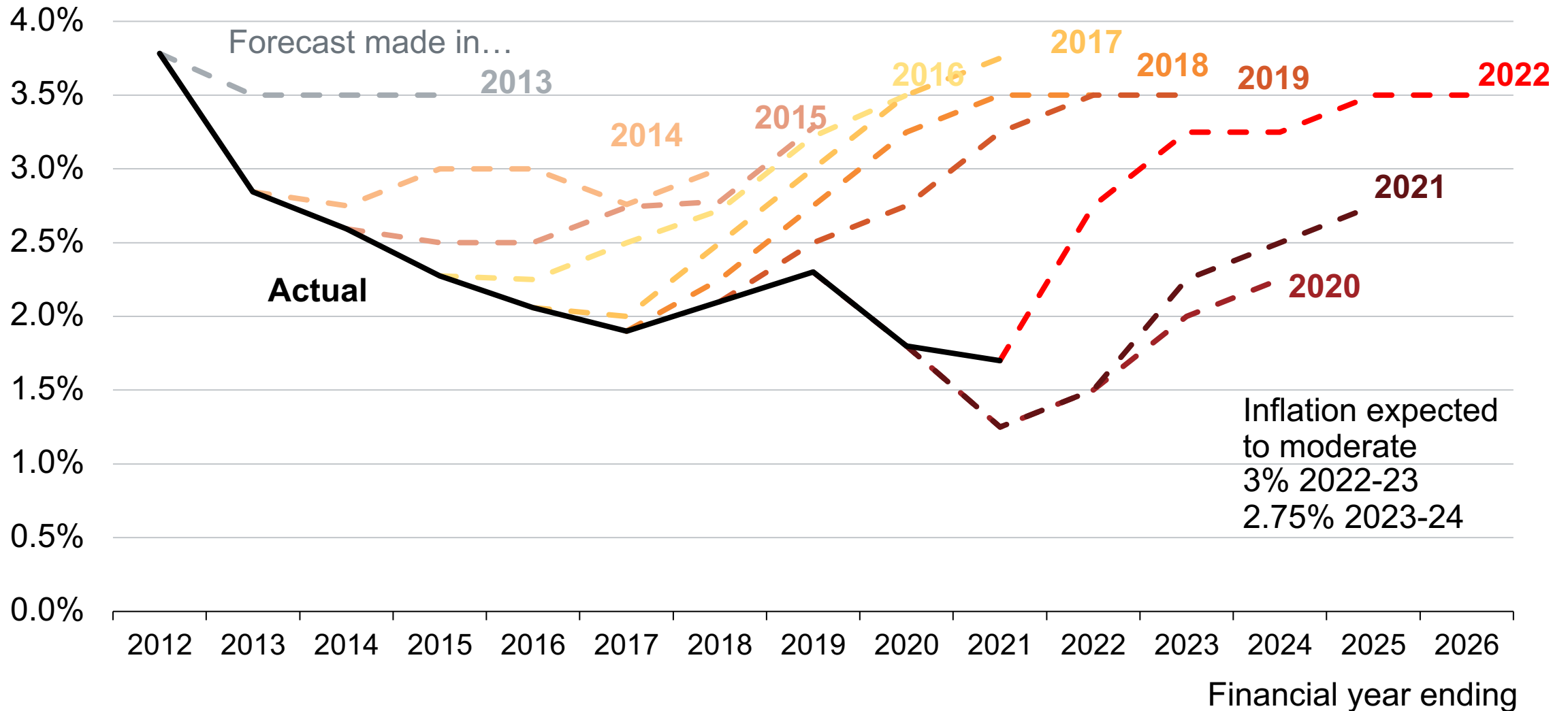


BUT yet to translate into wage growth

- Wages growth 2.75% in 2021-22
- Inflation 4.25% 2021-22
- Decrease in real wages

Treasury forecasts rise nominal wage growth (and some real wage growth) from 2022-23 – this time it might be realistic!

Actual and forecast growth in wages, per cent



Note: Total hourly rates of pay excluding bonuses, private and public wages.
Source: Grattan analysis of Commonwealth Budget Papers up to 2022-23.

Is now the time for stimulus?

- Unemployment with a 'three' in front (3.75% forecast by July)
- Consumer spending 3.5% (this year), 5.75% (next)
- Investment 5.5% (this year), 9% (next)
- Inflation 4.25% (this year), 3% (next)

2022 cost of living package

- \$250 payments welfare recipients (**\$1.5 bn**)
- Tax offsets of up to \$1,500 (**\$11.9 bn**)

Additional HH stimulus **\$13.4 billion**
(**1.3% GDP**, 6 months)

- Decrease in fuel excise 22.1cL (**\$3 bn**)

GFC package 1 (2008)

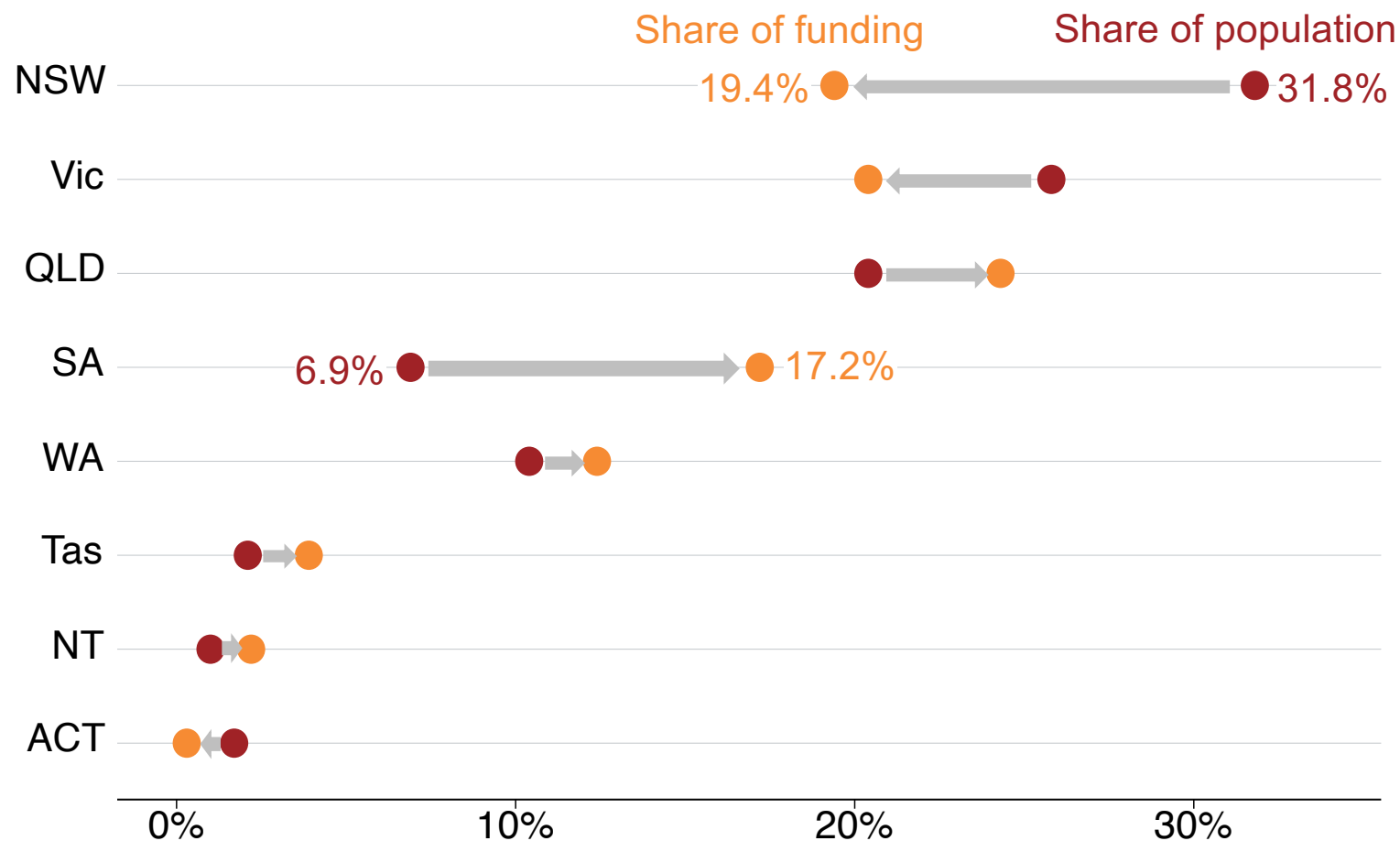
- \$1,400 payments pensioners – (**\$8.8bn**)
- \$1,000 family support payments – (**\$3.9bn**)

Additional HH stimulus - **\$8.7 billion**
(**1.2% GDP** over 6 months)

Increases the probability of rate rises faster and sooner

Infrastructure spend – politics or economics?

NSW, Vic, and ACT have received less infrastructure funding than their population warrants



...And a lot of funding is going to marginal seats:

Five out of seven NSW project commitments (of \$100 million+ each) **are in marginal seats**, e.g.:

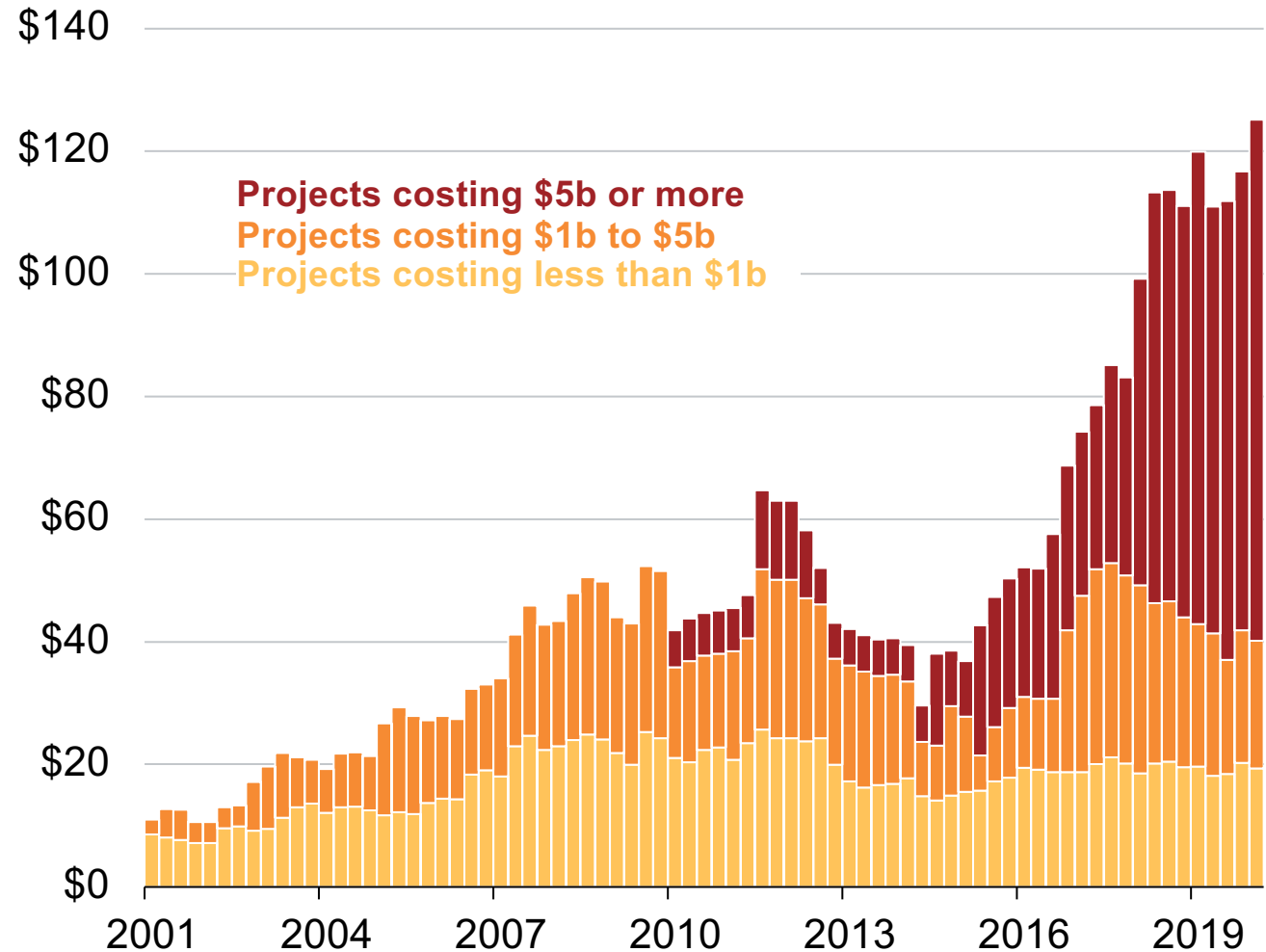
- Dobell: \$1.3 billion
- Gilmore: \$352 million
- Eden-Monaro: \$100 million

The largest project commitment, of **\$2.3 billion** for Adelaide's North South Corridor, includes the marginal seat of **Boothby**

Source: AFR, from ABS.

Higher risk of poor value investments squeezed into an already full pipeline

Expected cost of projects under construction, \$2020 billion



We are really starting to hit our head on the ceiling in terms of how much infrastructure work you can get under way at any one time. And that's actually putting some cost pressures into the system

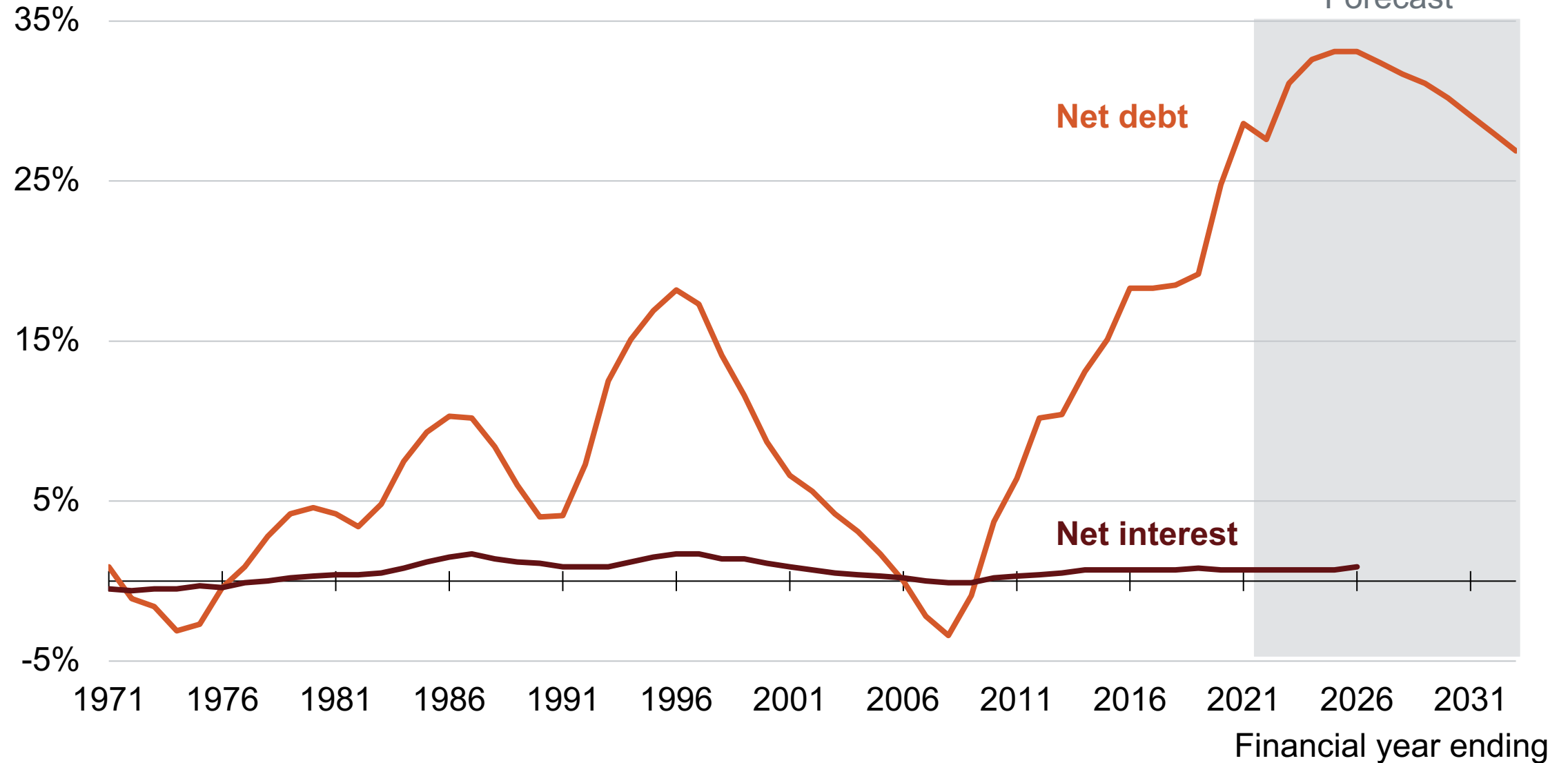
We are seeing capacity constraints.... related to skills, to materials, whether that be bitumen, cement, diesel, our boring equipment, and the like



Note: Includes all public road and rail projects costing more than \$20 million.
Source: Grattan analysis of Deloitte Access Economics Investment Monitor.

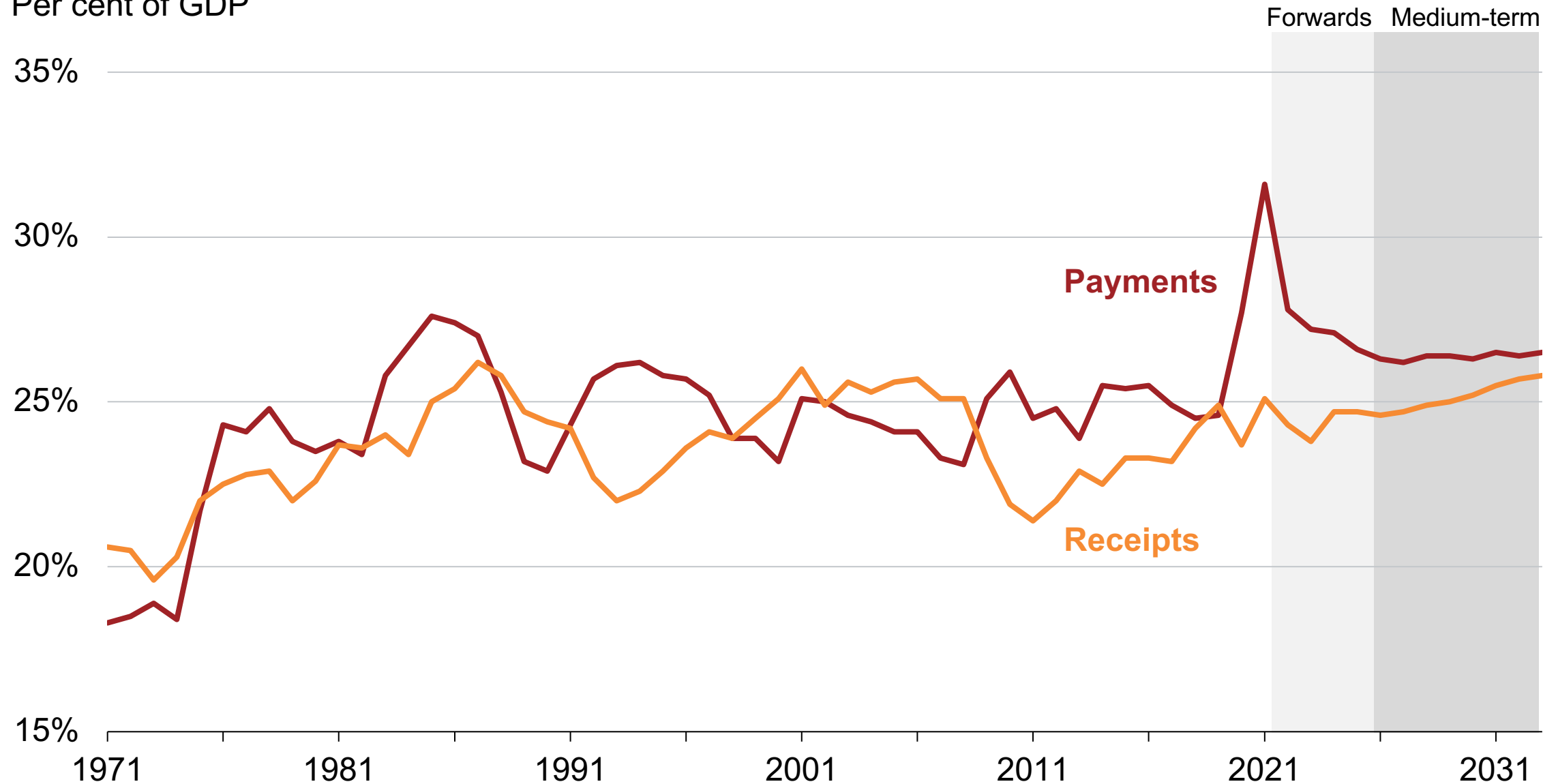
The good news on the medium-term fiscal situation: net debt expected to peak at 33% and interest payments remain low and stable

Per cent of GDP



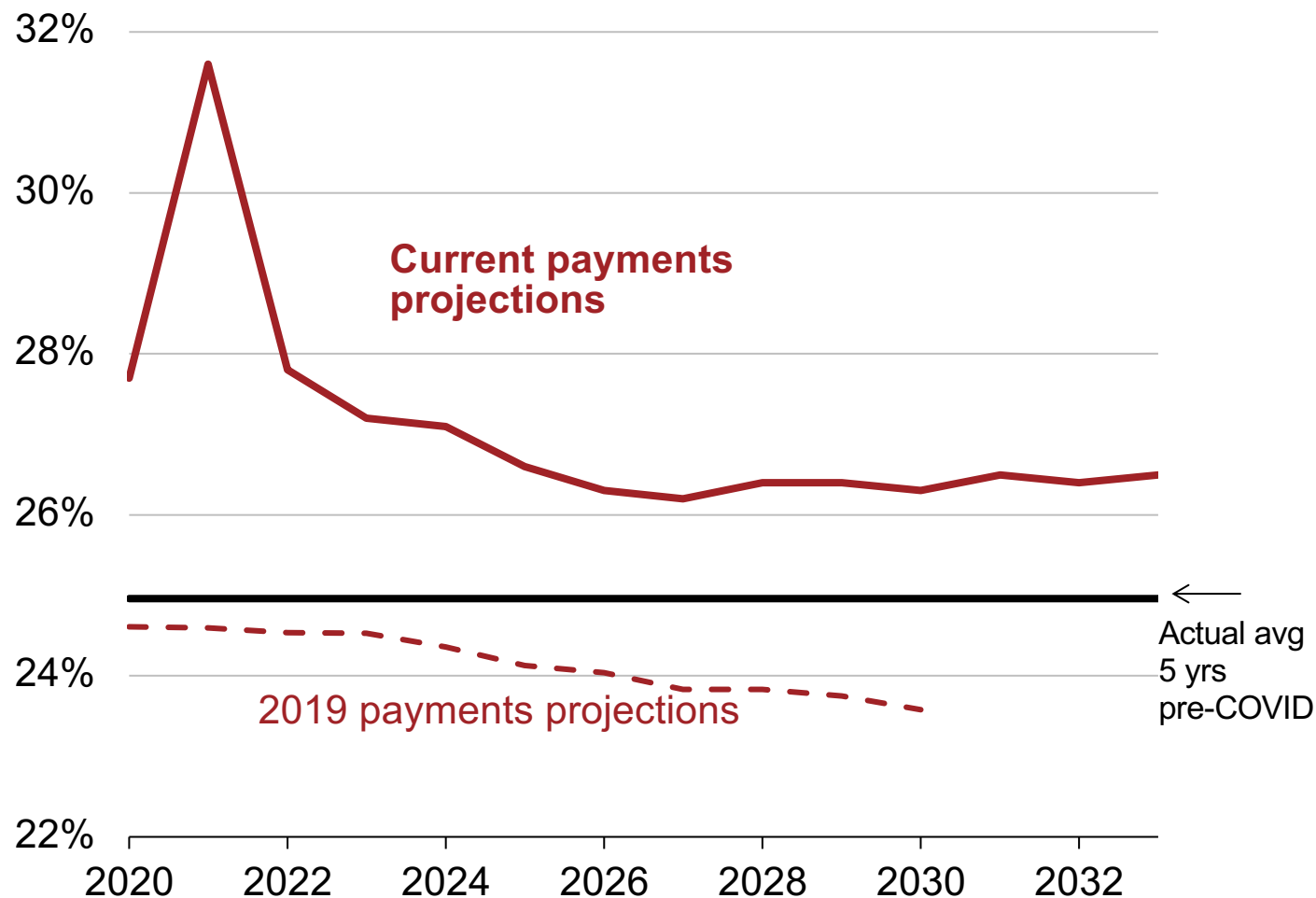
But we come out of COVID with significantly higher spending than what we went in with

Per cent of GDP



A very different world to what we were told pre-2019 election

Total payments and receipts projected to 2032-33 compared to pre-COVID projections, per cent of GDP



Is the medium-term payments line realistic this time?

- Substantial new spend on regional infrastructure (\$21 billion decade)
- Defence expected to increase as a share of GDP
- Aged care increase as a share of GDP (wages plus demand)
- NDIS increase as a share of GDP (budget papers)
- Health historically increases as a share of GDP
- Would need significant reductions in spending elsewhere to keep spending as a share of GDP constant

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