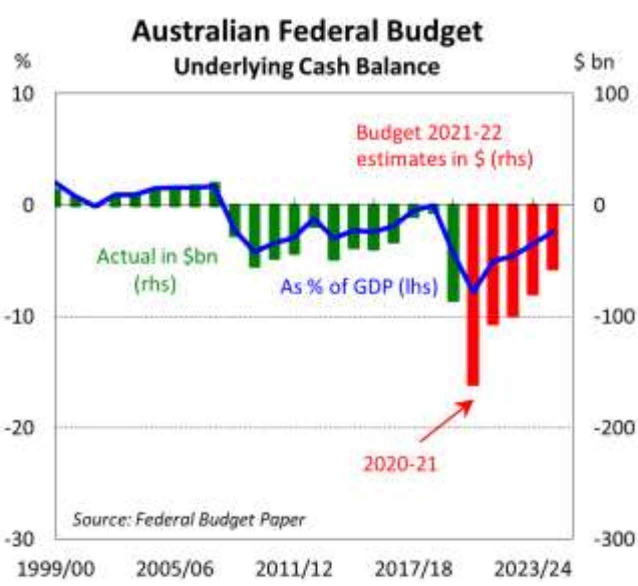
Data snapshot

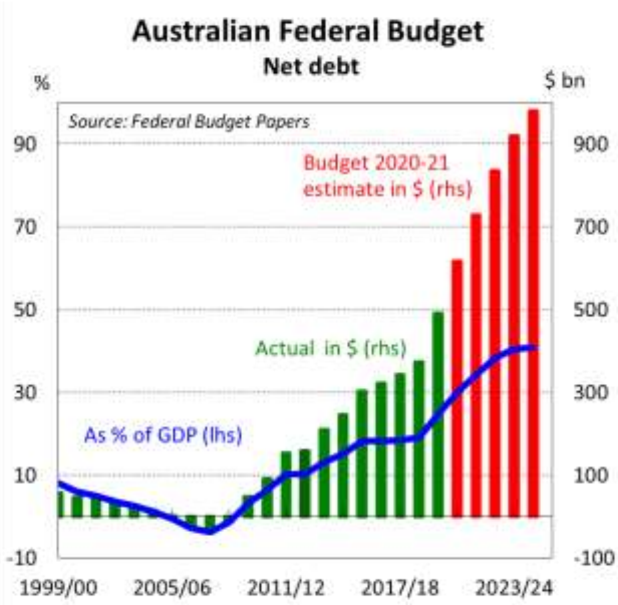
Tuesday, 11 May 2021

Federal Budget 2021-22

Keeping the Recovery Alive and Kicking

- Australia's incredible economic rebound has helped the government project a smaller deficit for 2020-21 of $161.0 billion. This is substantially smaller than what was expected just a few months ago. For 2021-22, a deficit of $106.7 billion is expected to be printed.
- A faster-than-expected economic recovery has helped underpin an improvement in the Budget's bottom line. Consumer spending has been resilient. Employment numbers have rebounded faster than expected, meaning the government has spent less than predicted on income support payments. Soaring export prices, particularly iron ore, have also helped drive an improvement in tax revenues.
- However, the economic recovery is uneven and uncertainty around the outlook for the economy and health outcomes remains elevated.
- The government needs to keep the recovery alive and kicking and on a sustainable path. The best way to support the economy is to keep the foot on the accelerator with more spending and this year's Budget does that.
- The main way the government aims to do this is with tax incentives to help bolster cash flows and spending of businesses, thereby creating a virtuous cycle of more jobs and more economic activity. Spending on infrastructure and personal income tax relief also feature.
- New initiatives totalled a bit over $18 billion in 2021-22, rising to $29.3 billion in 2023-24.





What are the main themes?

- First, protecting Australia from COVID-19, including through the vaccine rollout, tax initiatives for businesses, extending tax relief to low- and middle-income earners and giving targeted support for sectors and regions continuing to be affected by COVID-19.
- Second, creating jobs, including through spending on infrastructure and skills.
- Third, guaranteeing essential services through spending on areas such as aged care, mental health and NDIS.
- Finally, building resilience and the security and defence capability of Australia through investing in Australia's regions and supporting the defence industry.

Biggest winners

- Indeed, businesses were among the biggest winners from tonight's Federal Budget. There is a deep awareness within the Budget that businesses create jobs. Tax initiatives for businesses introduced in last year's Federal Budget to encourage business spending and support the cash flow of businesses have been extended for another year to the end of 2022-23.
- These temporary measures are the loss carry-back provisions and full expensing and are estimated to cost $17.9 billion over four years. By helping boost cash flows and encourage businesses to spend, job creation should ensue.
- The loss carry-back allows businesses to write-off any losses incurred until June 2023 against profits made on or before 2018-19 rather than on subsequent profits as usually happens.
- For temporary expensing, businesses with aggregate turnover of up to $5 billion will be able to write off the full cost of eligible depreciable assets of any value in the year they are first used or installed.
- Businesses were not the only winners. The government is extending the low-to-middle income tax offset for another year, which delivers personal tax relief to households. This tax relief will boost demand throughout the economy.
- The Budget has laid a good foundation, but the path to recovery will take time.

Where does the Budget fall short?

- Expectations were high that this Budget would do a lot for women. This Budget contained a package supporting the safety and economic security of women and it is a welcome step in the right direction, especially the spending on domestic violence.
- However, we would have liked to have seen spending measures towards helping bolster access to capital for female start-ups and scale-ups. Our research shows that access to capital is one of the biggest obstacles facing women when starting or running a business. This can be due to the lack of dedicated funding for women as well as other factors.
- Another obstacle often facing women is the lack of sufficient retirement savings due to the different work patterns of women that include career breaks. Lifting female participation in the workforce helps.
- The additional $1.7 billion in spending on child care will help lift female workforce participation, but only modestly. More needs to be done if we are to address the lower rate of female participation and the insufficient retirement savings of women.

Deficits and Budget repair

- Large deficits will remain a feature over the next few years, as the focus remains on rebuilding the economy. These deficits are projected to shrink gradually. For 2022-23, a budget deficit of $99.3 is projected by the government and by the outer year, 2024-25, the budget deficit is expected to narrow to $57.0 billion (or 2.4% of GDP).
- It is too soon to start talking about Budget repair. The economy is still in rehab and there remains considerable uncertainty around the health and economic outlook. For now, the government needs to focus on ensuring the recovery stays on the right track.

Can we afford such a large deficit?

- An alternative question might be 'can we afford not to'? The COVID-19 pandemic has been the largest hit to our economy in 90 years. Pulling back government support pre-emptively would see more people fall into unemployment and more businesses fail.
- Yes, the government has spent a lot and will continue to do so. This spending has been funded by increasing public debt. But we can afford it. And it is in the nation's best interests.
- Net debt will increase to 30.0% of GDP in June 2021 before hitting at a record 40.9% in June 2025. While the deficit and the accompanying debt will reach a record proportion of GDP, debt in Australia relative to the size of the economy is much lower than in many other countries and is likely to remain so.
- Interest rates are also at very low levels. The government can borrow money for 10 years at a miserly rate of under 2%. Such low rates make debt servicing far easier than it might have been in the past. As debt built up after the 1990s recession, net interest payments increased to 1.7% of GDP. On tonight's figures, debt interest payments are expected to remain at 0.7% of GDP over the next few years.

When does the Budget return to surplus?

- The name of the game today is rebuilding the economy, not cuts to spending and belt tightening. Those policies were tried during the depression and added to everyone's misery. Times have changed and so has the Budget. Jobs and livelihoods come before economic dogma.
- Some analysts expect a surplus might be returned within the next four to five years. It's not completely out of the question but does require a lot of cylinders to be firing all at once, including ongoing falls to unemployment, rising iron ore prices and ballooning company profits.

What about the economic outlook?

- The government expects economic activity recovered to above pre-pandemic levels in the first quarter of 2021. Following the strong rebound, economic growth is expected to moderate as the economy transitions out of the initial reopening phase of the recovery.
- Real GDP is forecast to grow by at a solid pace of 4.25% in 2021-22, before slowing to a more moderate pace of 2.5% in 2022-23. Both growth forecasts are softer than our own predictions. We expect 4.7% growth in 2021-22 and 3.0% in 2022-23.
- The unemployment rate is forecast to tick down to 5.5% by June this year from the current level of 5.6%, despite earlier concerns unemployment would increase, albeit temporarily, after the conclusion of JobKeeper at the end of March. The Treasurer has emphasised his goal

is to drive the unemployment rate down to below its level prior to the pandemic, which was around 5.0%. The government forecasts the unemployment rate to fall below 5.0% in 2022-23 and reach 4.50% in 2023-24, which is a rate Federal Treasury has estimated to be the rate consistent with full employment in the economy. The Reserve Bank expects 4.5% to be reached sooner, as do we.

Key Aggregates and Parameters*						
	Actual	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Budget Aggregates						
Underlying cash balance ($bn)	-85.3	-161.0	-106.6	-99.3	-79.5	-57.0
% of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4
Net debt ($bn)	491.2	617.5	729.0	835.0	920.4	980.6
% of GDP	24.7	30.0	34.2	38.4	40.4	40.9
Major Economic Parameters						
Real GDP	-0.20	1.25	4.25	2.50	2.25	2.50
Employment	-4.20	6.50	1.00	1.00	1.25	1.25
Unemployment rate	6.90	5.50	5.00	4.75	4.50	4.50
Consumer price index	-0.30	3.50	1.75	2.25	2.50	2.50
Wage price index	1.80	1.25	1.50	2.25	2.50	2.75
Nominal GDP	1.70	3.75	3.50	2.00	4.75	5.00

Source: Federal Treasury

* GDP data are percentage change on the previous year. The consumer price index, employment and wage price index are through the year growth to the June quarter. The unemployment rate is for the June quarter.

- The government has forecast that wages will pick up from their current lows, although the numbers still aren't great. The forecasts show wages growth hitting 2.75% by June 2025. The RBA wants to see wages growth over 3% to get inflation back in its target band.
- The iron ore price is forecast to decline to US$55/tonne by the March quarter of 2022. The iron ore price has soared over the recent period, due to strong Chinese demand and supply disruptions in Brazil and is currently sitting over US$200/tonne. We expect the iron ore price will remain much higher than the government's forecast.
- The government's conservative growth and iron ore forecasts means there is a good chance the government's bottom line will turn out better than forecast in this Budget.
- Net overseas migration has been smashed by international travel restrictions. It is forecast to fall from 194,000 persons in 2019-20 to around -97,000 by the end of 2020-21. Only a slight improvement to -77,000 is predicted for 2021-22. A recovery to 235,000 persons is anticipated in 2024-25.

The Budget and the RBA

- The RBA is holding the cash rate at a record low of 0.1%, targeting the 3-year government bond yield and is purchasing longer dated bonds under its quantitative easing program. Tonight's Budget has not changed our view of RBA policy. We do not expect the cash rate will be lifted until 2024 at the earliest.
- The economic recovery needs a mix of fiscal policy and monetary policy. Given the pandemic's hit to the economy, both arms of policy need to work hard and in unison.

The Budget and the AUD

- The initial reaction from investors in the foreign exchange market was muted with the AUD moving slightly lower against the US dollar, from 0.7845 ahead of the delivery of the Budget to a low of 0.7820 in the few hours after it.
- The AUD/USD broke through a key resistance level of 0.7825 on Friday and is set to eye the US 80 cent level next. Higher iron ore prices are helping underpin demand for the AUD.

Budget Overview – Key Spending Measures

Aged Care

- The aged care package is $17.7 billion over four years directed towards improving safety and quality standards, ensuring the sustainability of private providers, and increasing the availability of home-care packages.

Business Initiatives

- Temporary full expensing to be extended for another twelve months to 30 June 2023 for non-mining businesses with turnover of up to $5 billion. This scheme has been available since 6 October 2020. Businesses will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed. The cost of improvements to existing eligible depreciable assets made during this period can also be fully deducted.
- The temporary loss carry-back provisions for businesses with turnover up to $5 billion will also be extended for one year to 30 June 2023. It allows businesses to write-off any losses incurred until June 2022 against profits made on or before 2018-19.
- Both temporary full expensing and the loss carry-back provisions are part of the JobMaker plan. Treasury estimates that these measures, including the extension, will contribute to creating around 60,000 jobs by the end of 2022–23.

Covid Response Package

- A key theme of the Budget is to protect Australians from Covid. To achieve this, the Government is investing a further $1.9 billion in the COVID-19 vaccination roll-out and committing $1.5bn to a range of health responses including telehealth.
- The Government is also delivering a previously announced $1.2 billion package for the aviation and tourism sectors to help them recover from the impacts of COVID-19. Almost $300 million committed to support the reopening of the arts sector was also previously announced.

Child Care

- The government will spend an additional $1.7 billion over five years on increased child care subsidies. This spending will help families with two or more children under five. In addition, the subsidy cap of $10,560 per child will be scrapped from 1 July.

Climate Services and Disaster Relief

- The new National Recovery and Resilience Agency will be established, and Emergency Management Australia will be enhanced. There will also be nearly $209.7 million committed to establish the Australian Climate Service.
- As a part of its commitment to reduce emissions under the Paris Agreement, the government has committed over $500 million for hydrogen and carbon capture use projects.

Education

- Spending of $2 billion over four years for early childhood education, which includes a comprehensive four-year Strategic Reform Agreement, and $1.6bn over four years supporting Guaranteeing Universal Access to Preschool.

Health

- Spending of $2.3 billion over four years to improve and expand mental health care and suicide prevention, of which $2.0 billion is new initiatives such as new mental health centres and services plus expanded options of Medicare listings.
- There is $220 million earmarked to update and add new health services to the Medicare Benefits Schedule and $879 million to support access to affordable medicines through the Pharmaceutical Benefits Scheme.

Housing

- The Budget includes several policies to support home ownership. The Family Home Guarantee will help 10,000 single parents over four years buy a home with a minimum 2% deposit.
- The First Home Loan Deposit Scheme will be extended for a second year with an extra 10,000 places for first-home buyers to build or buy a newly built house with a minimum 5% deposit.
- To support first-home buyers to raise a deposit more quickly, the Government is also amending the First Home Super Saver Scheme to increase the maximum amount of voluntary contributions eligible to be released under the scheme to $50,000 from $30,000.
- The government has already announced it would extend the construction commencement deadline of the HomeBuilder program by twelve months to give people who already applied for the scheme extra time to start building.

Infrastructure

- The government has announced $7.2 billion over 4 years or an additional $15.2 billion over ten years to be spent on road, rail, and community infrastructure projects. This takes total infrastructure spending to $110 billion over the decade.
- Some of the big-ticket items include $2.6 billion on the North-South Corridor in South Australia, $2.0 billion on upgrading the Great Western Highway in NSW and up to $2.0 billion on the Melbourne Intermodal Terminal. A $1.3 billion package was announced for Western Australia for priority road and rail projects.
- There is also $1 billion being provided to extend the Local Roads and Community Infrastructure program to 2022–23. In addition, the Road Safety Program is also being extended to 2022–23 with an additional $1 billion of funding.

Personal Income Tax

- The low and middle-income tax offset (LMITO) due to expire at the end of this financial year. has been extended by another 12 months. This extension effectively provides a tax cut to low-and-middle income earners of up to $1,080 for singles and $2,160 for couples.
- Stage 3 of the legislated tax plan remains unchanged and is due to start in 2024-25.

Skills and Training, Support for the Unemployed

- An extra $2.7 billion will be committed over four years to expand the Government's Boosting Apprenticeship Commencements wage subsidy, which reimburses employers for the wages of new apprentices and trainees by up to 50%. Federal Treasury expects this investment will lead to 270,000 new apprentices and trainees hired by next March 2022.
- The government will also provide an additional 5,000 Commonwealth supported short course places in 2021–22 for non-university higher education providers.
- JobKeeper and the Coronavirus Supplement (a booster payment for JobSeeker recipients) expired at the end of March. The JobMaker 'hiring credit' is due to conclude at in October 2021 and will not be extended. The scheme incentivised businesses to employ additional workers aged 16–25.
- JobSeeker payments were increased by $50 a fortnight from 1 April 2021 to $620. Eligibility requirements for the payments are tightening – job seekers need to be applying for at least 15 jobs per month to be eligible up from 8 previously. In July 2021, that will rise again to 20.
- The government is investing another $500 million in JobTrainer and extending it for another twelve months until the end of 2022. This scheme offers free or low-fee courses equipping those eligible for work in areas of shortages, including aged care, IT, and childcare.

Superannuation

- The Budget includes measures to increase the flexibility of the superannuation system. The Government will repeal the work test for voluntary non-concessional and salary sacrificed contributions to superannuation. From 1 July 2022 the minimum age will be lowered from 65 to 60, allowing Australians nearing retirement to make a post-tax contribution of up to $300,000 per person when they sell their family home.
- The government is also set to scrap the $450 a month threshold to pay compulsory super, helping to lift the retirement income of females who are more likely to miss out under the current rules.

Women

- The government emphasised that support for women is a key feature in this Budget. This included $998.1 million over the next four years to be provided for initiatives such as reducing and supporting victims of family domestic and sexual violence. It includes $261 million for frontline services such as emergency accommodation.
- A spending package of almost $354 million for women's health initiatives was also announced. The key initiatives include around $100 million for improvements to cervical and breast cancer screening programs, support for mental health and wellbeing of new and expectant parents, and new genetic testing of embryos before implantation.

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