

# The budget in context

Gareth Spence / May 2024

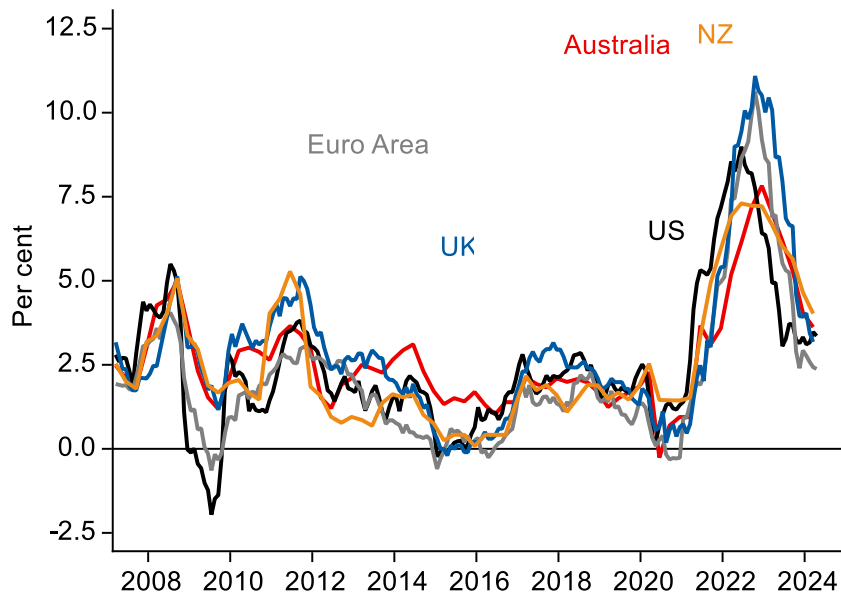


# Globe: Inflation has moderated but not back at target



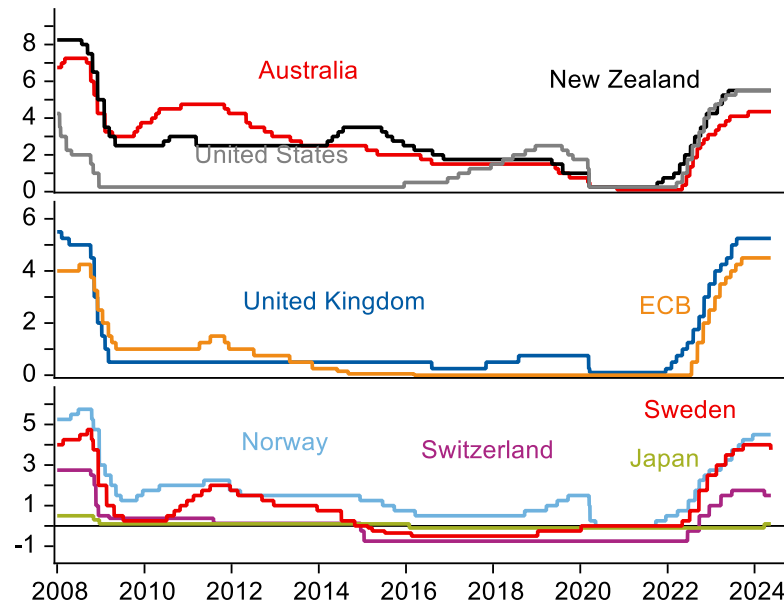
But rates look to have peaked, just a question of how long they stay there...

## Headline inflation by country (Year-ended, %)



Source: National Australia Bank, Australian Bureau of Statistics, U.S. Bureau of Labor Statistics (BLS), Eurostat, U.K. Office for National Statistics (ONS), Statistics New Zealand, Macrobond

## Monetary Policy Rates (%)

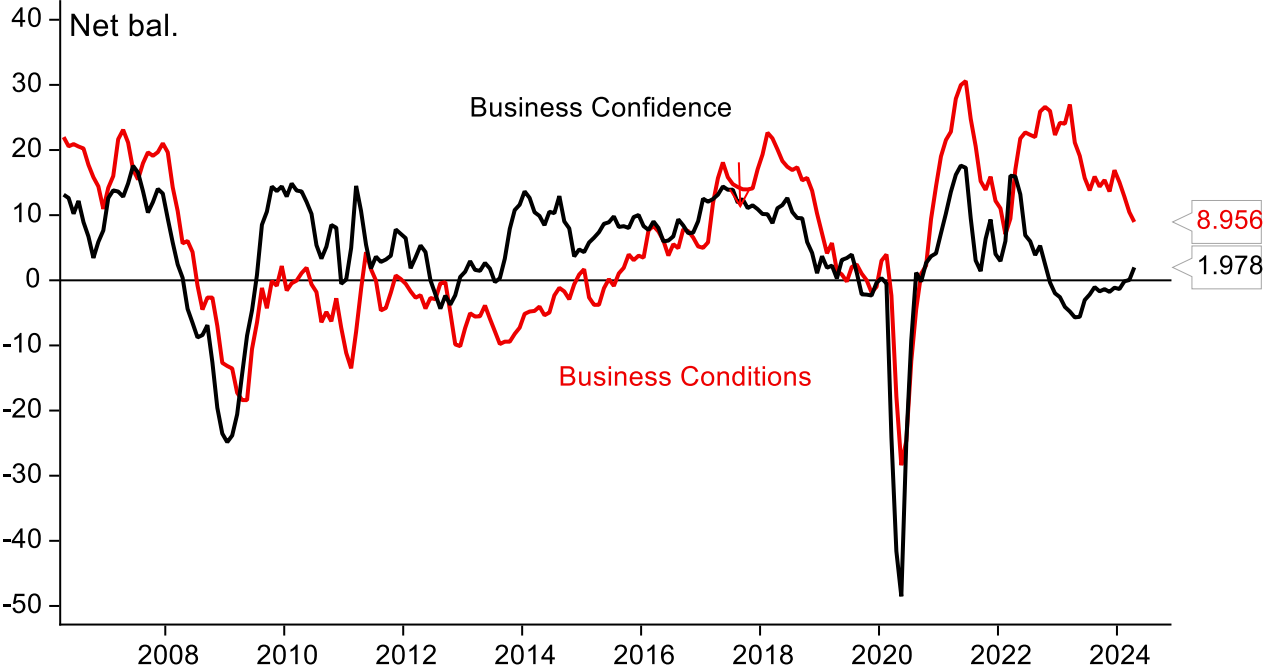


Source: National Sources

# How is QLD starting 2024



## Business Conditions - QLD

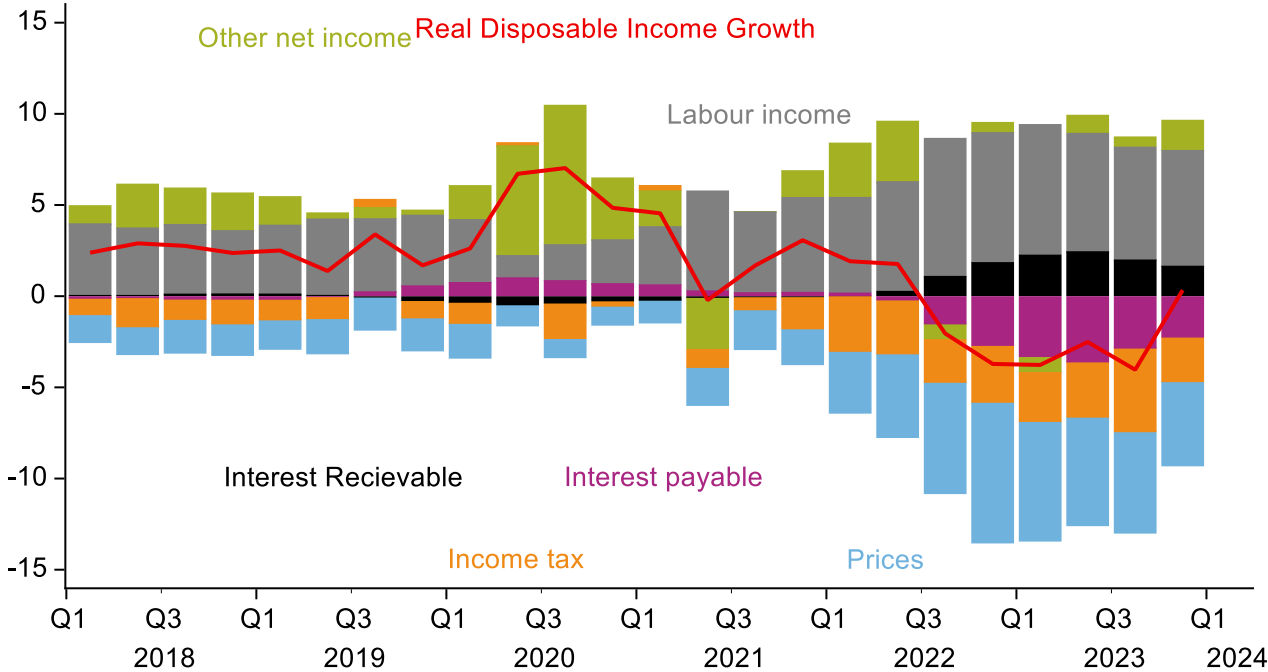


Source: National Australia Bank, National Australia Bank, Macrobond

# Household budgets are under pressure



## Real Household Disposable Income Growth (Year-ended, %)

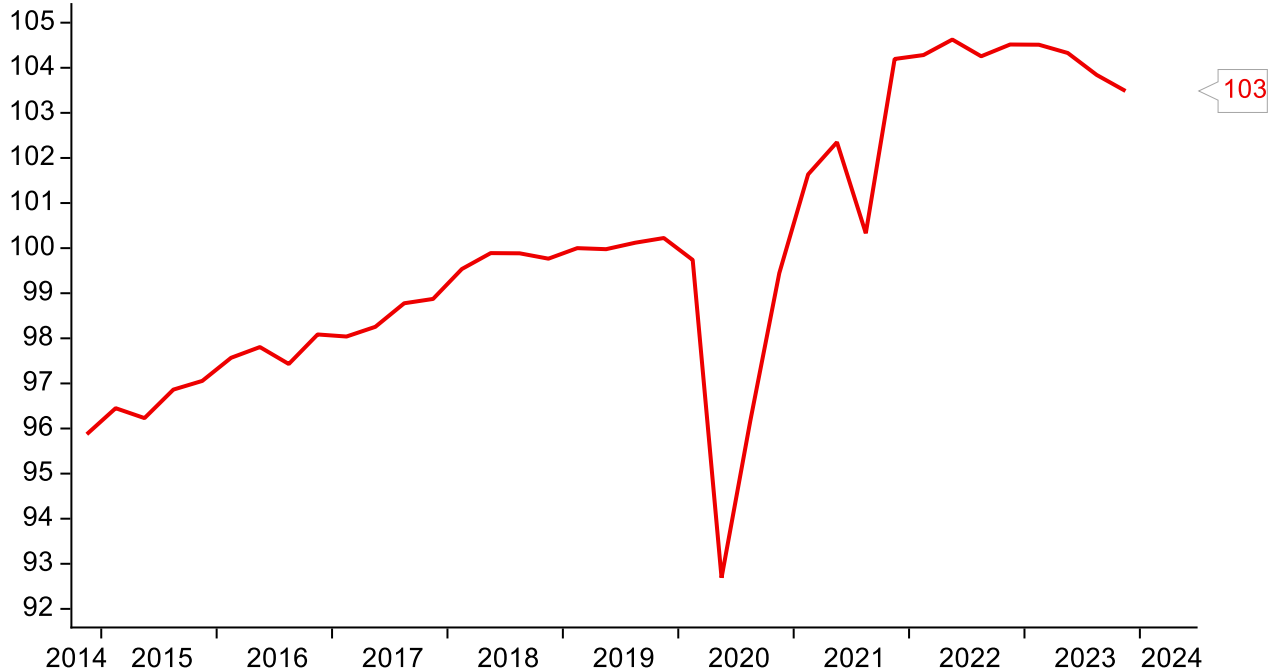


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

# Per capita spending certainly shows the adjustment



Per Capita GDP (Index Q4 2019 = 100)

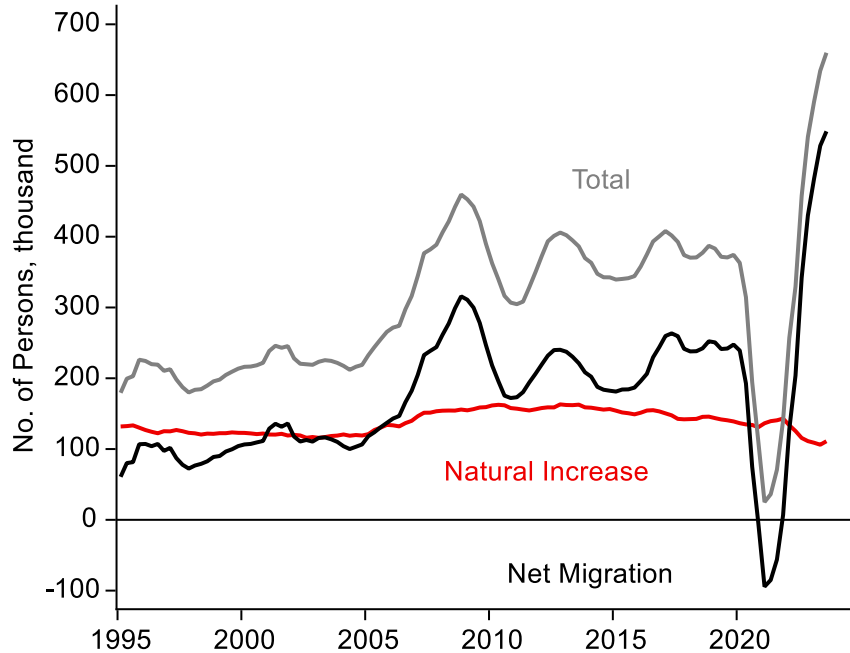


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

# Population growth has been a key support

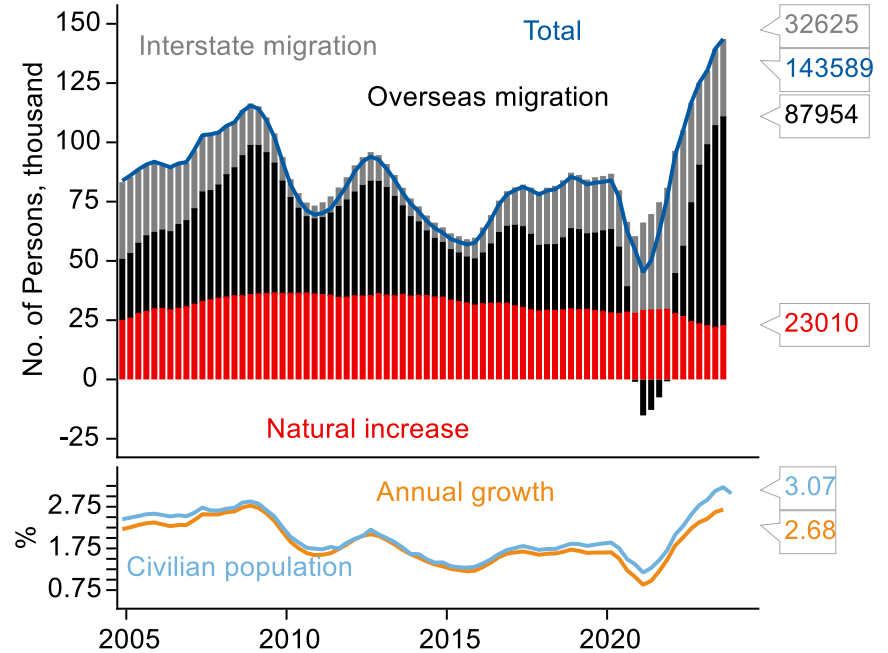


## Population Growth



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

## Queensland - Population Growth

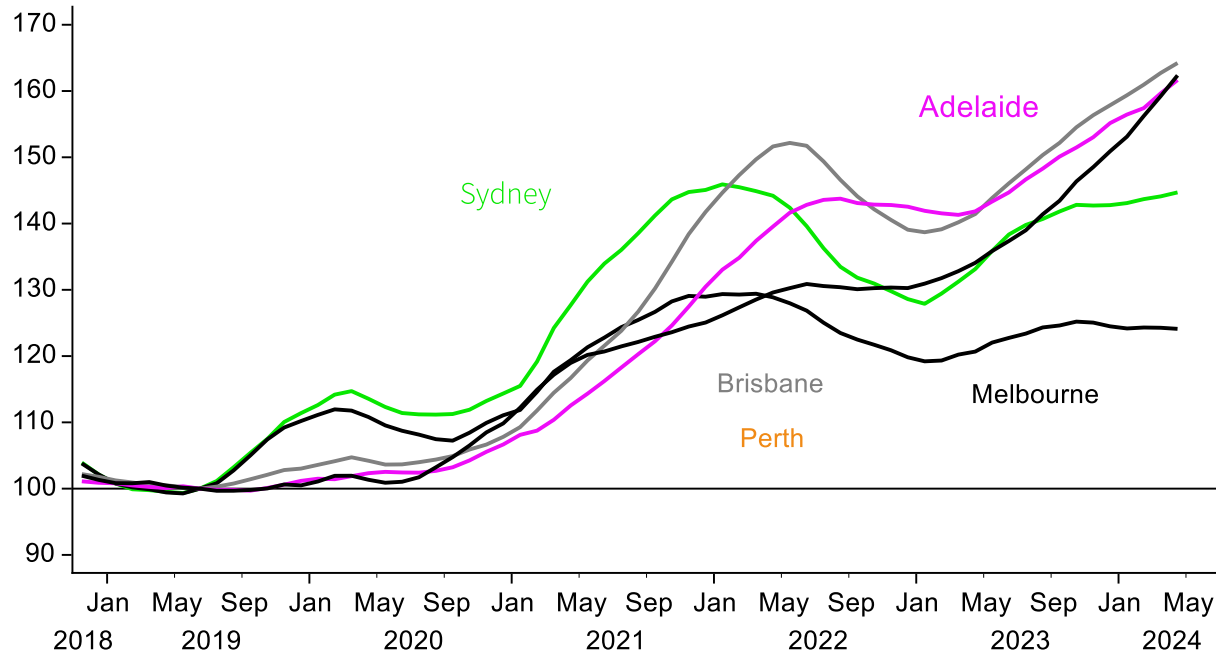


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

# House prices are growing sharply



## Capital City House Prices (June 2019 = 100)

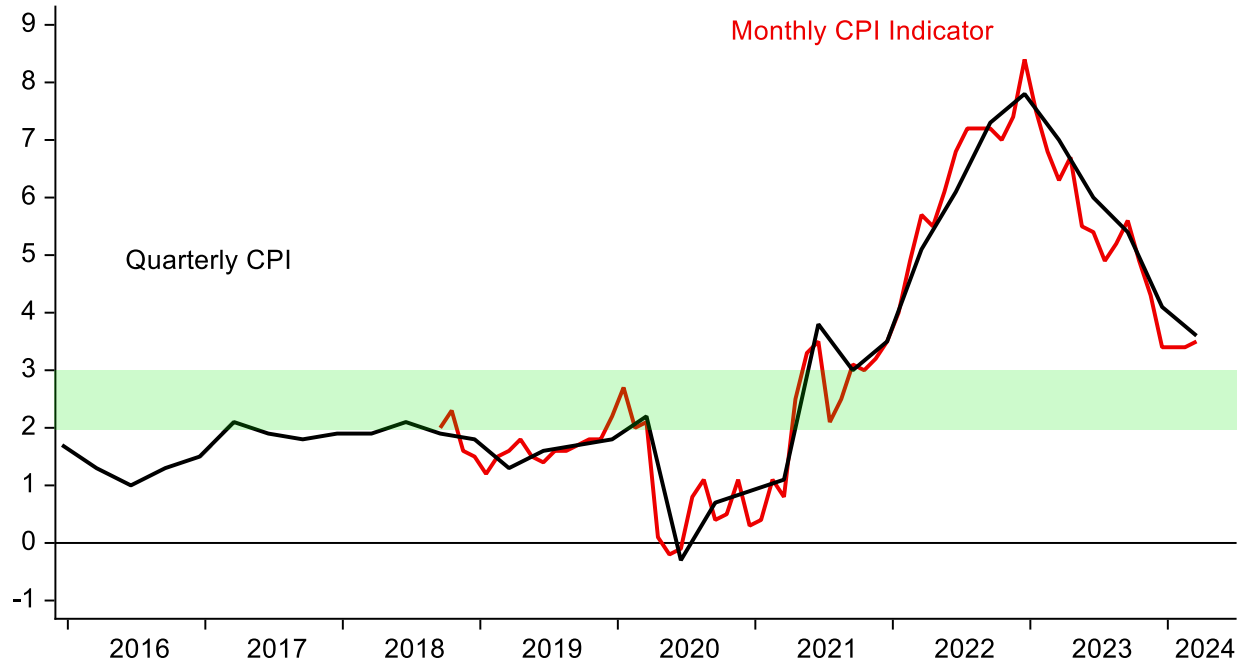


Source: National Australia Bank, AccountHome, Macrobond

# Inflation has peaked, but still high



## Headline Inflation (Year-ended, %)



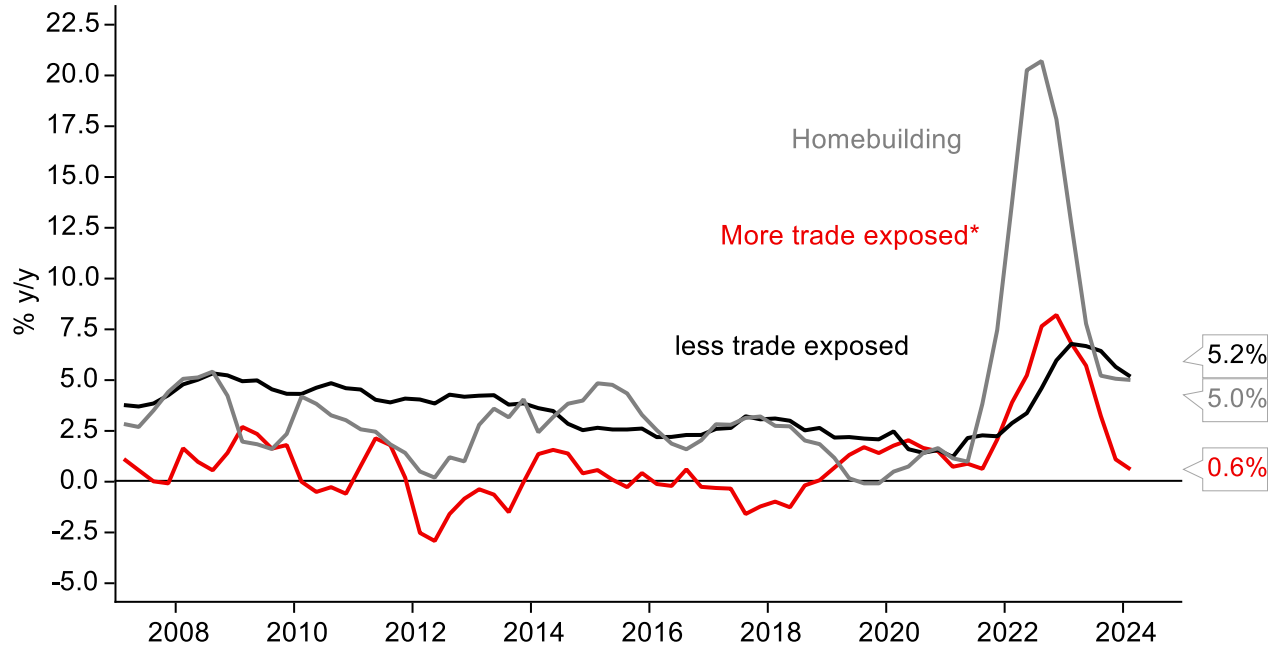
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond



# Domestic inflation pressures are key



## Australia Consumer Prices



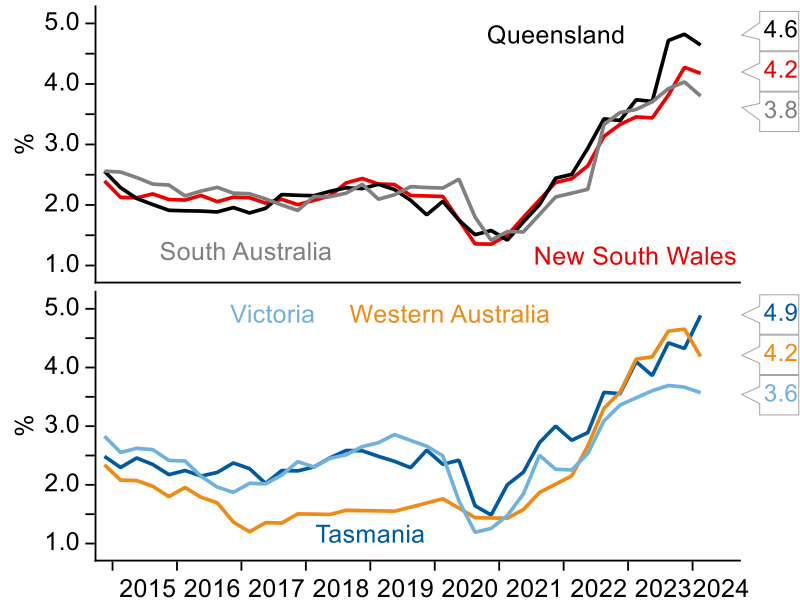
\*excluding automotive fuel, which is volatile

Source: National Australia Bank, Australian Bureau of Statistics

# Wage Growth has accelerated

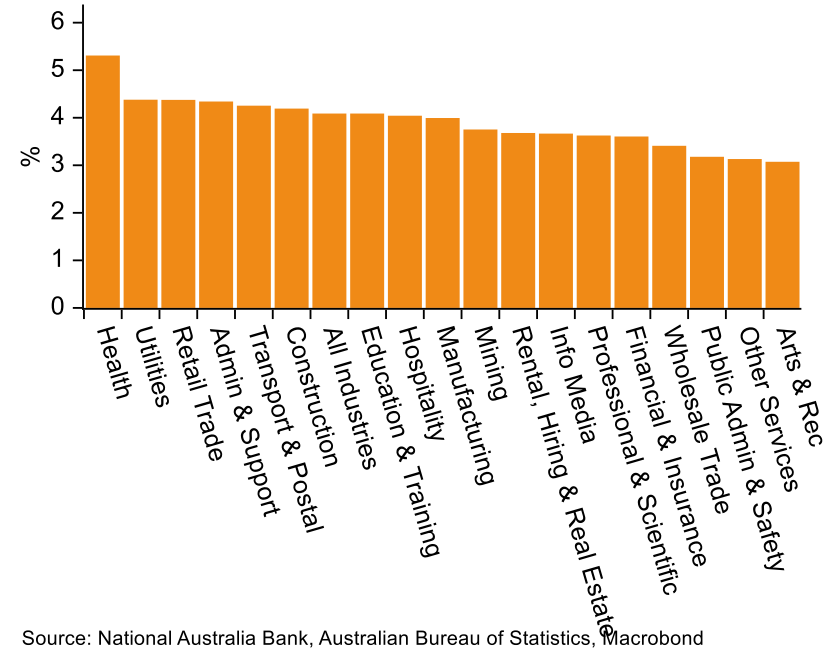


## Wage Growth by State



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

## Wage Growth by Industry

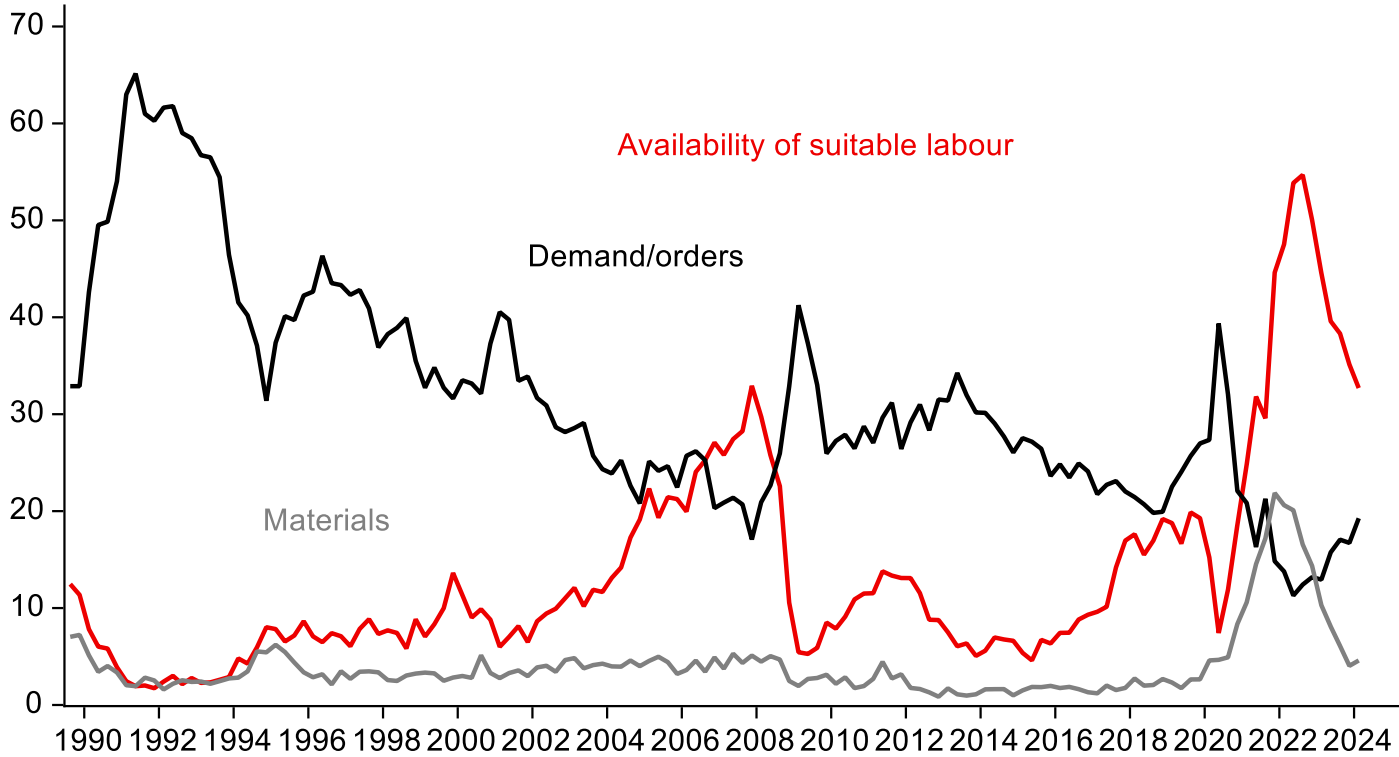


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

# Input pressures are easing but still high



## NAB Survey Constraints on Output (% of Firms)



Source: National Australia Bank, National Australia Bank, Macrobond



# What does a good budget look like?

What does the budget need to manage?

- Economic cycle management?
- Industry Policy
- Social Policy
- Government Services

What does it need to consider?

- The economic context
- Debt sustainability
- Tax mix/burden
- Trade-offs/cost benefits
- Redistribution of income



## Key budget headlines:

- Cost of living package
- Future made in Australia
- Housing policies
- Priority Infrastructure
- Instant asset write-off for small business
- Education: Student caps and HECS/HELP relief

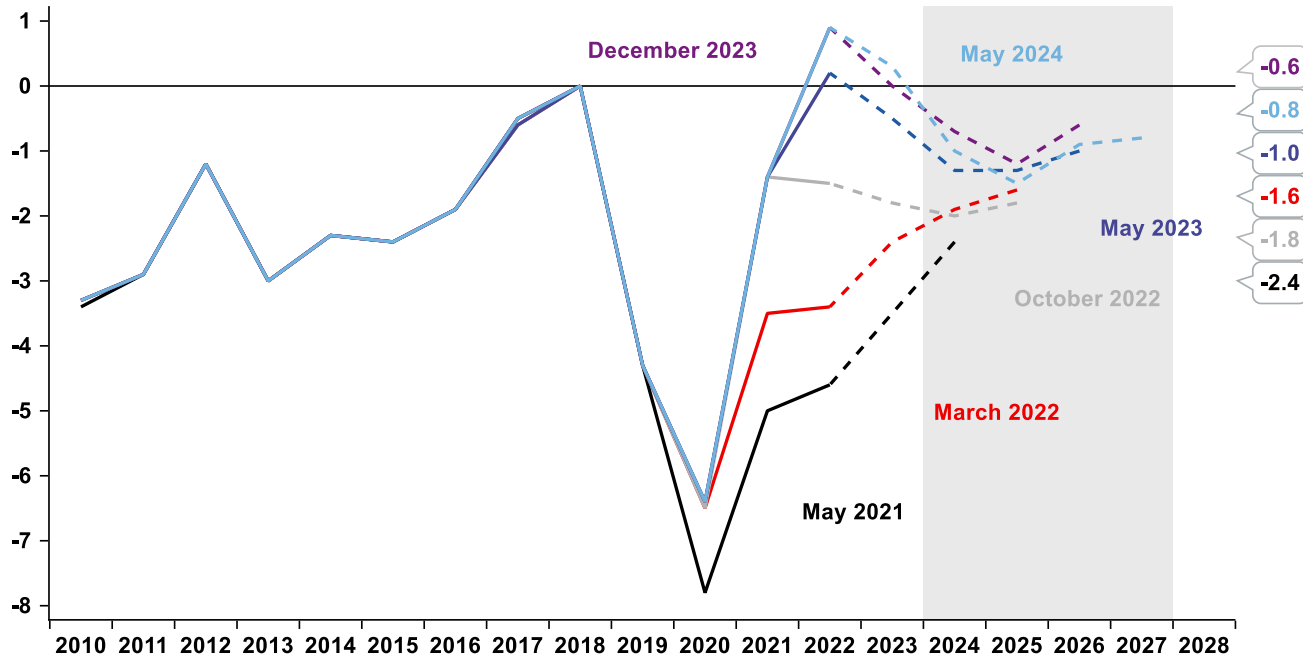
# The Budget: A second “surprise” surplus but it gets harder



Commodity prices and the labour market have been the key surprises...

## Federal Budget: UCB Forecasts

Percent of GDP



X-axis shows first year of relevant financial year.

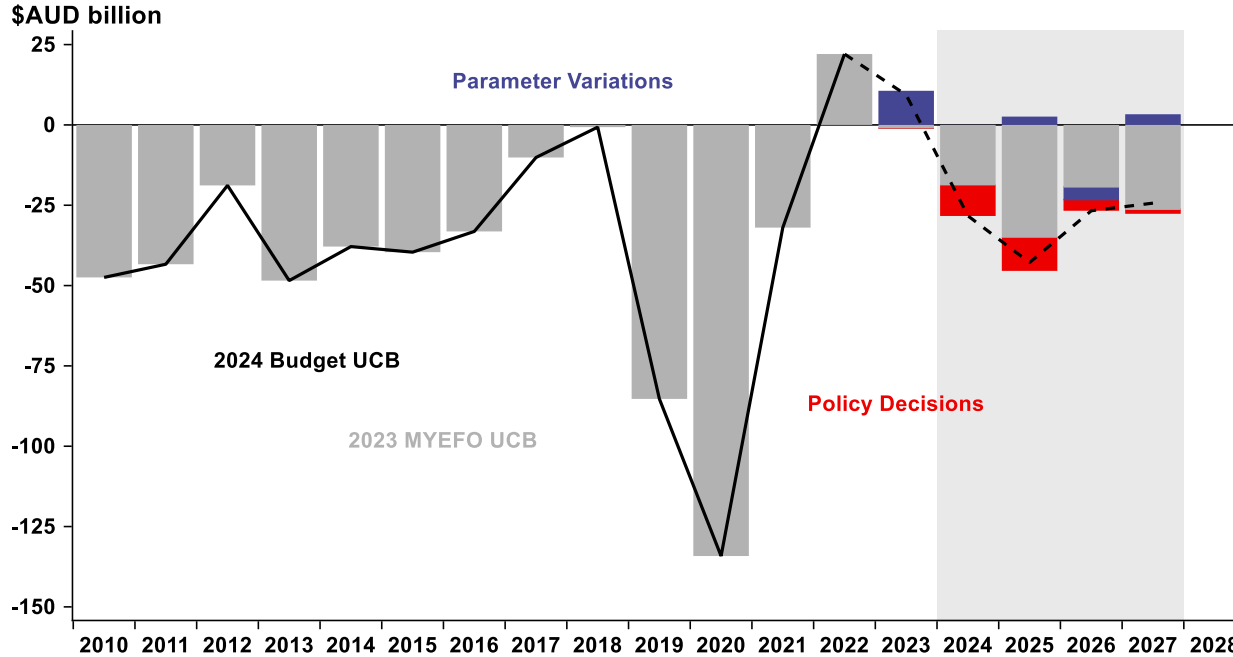
Source: Macrobond, Commonwealth Treasury, NAB Economics.

# The Budget: More spending, no new revenue measures



Recent surprises have been banked, but next year the extra spending means we may not get a surplus...

## Federal Budget: UCB Reconciliation



Source: Macrobond, Commonwealth Treasury, NAB Economics.

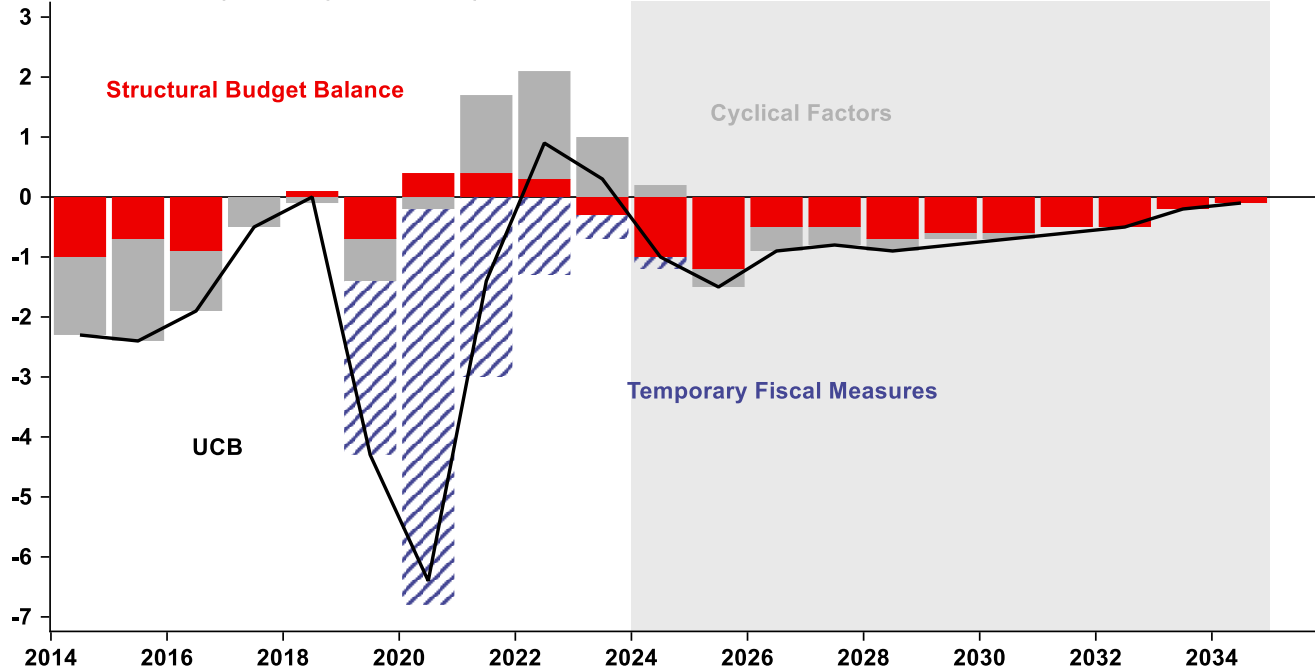
# The Budget: A persistent structural deficit



Though starts to improve in the future...

## Federal Budget: Structural Budget Estimates

Percent of GDP (Treasury estimates)



X-axis shows first year of relevant financial year.

Source: Macrobond, Commonwealth Treasury, NAB Economics.

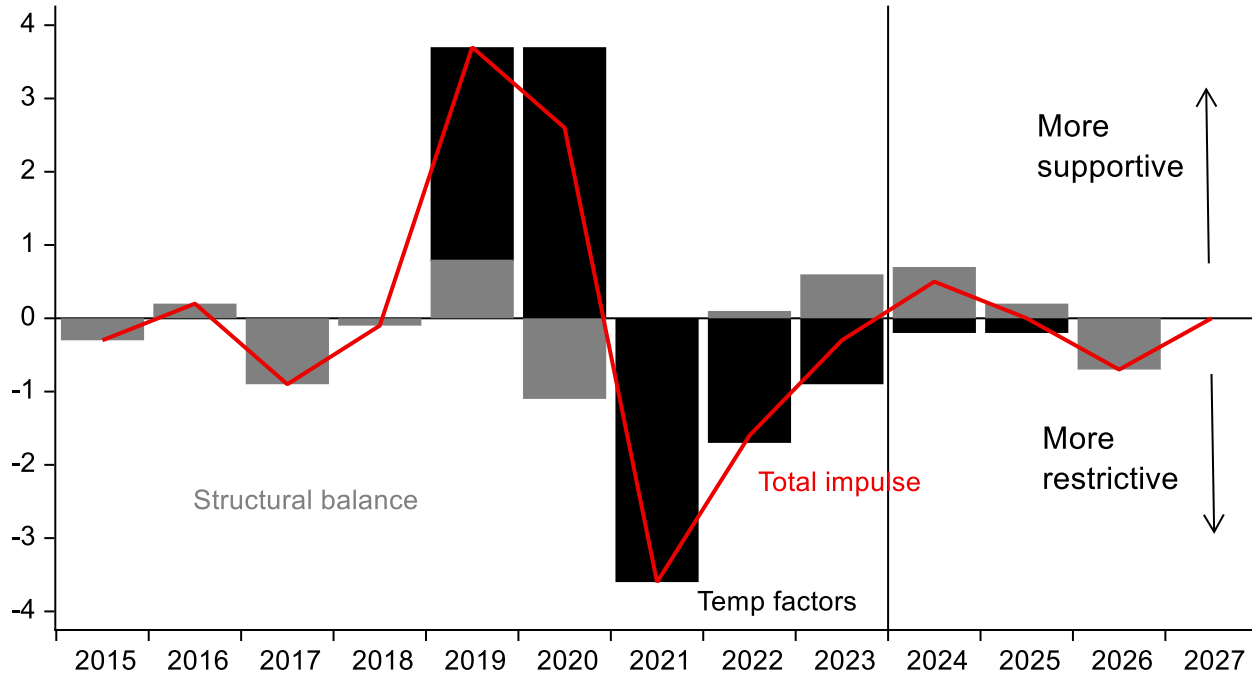


# The Budget: A positive support for growth next year



But then it fades...

## Fiscal Impulse



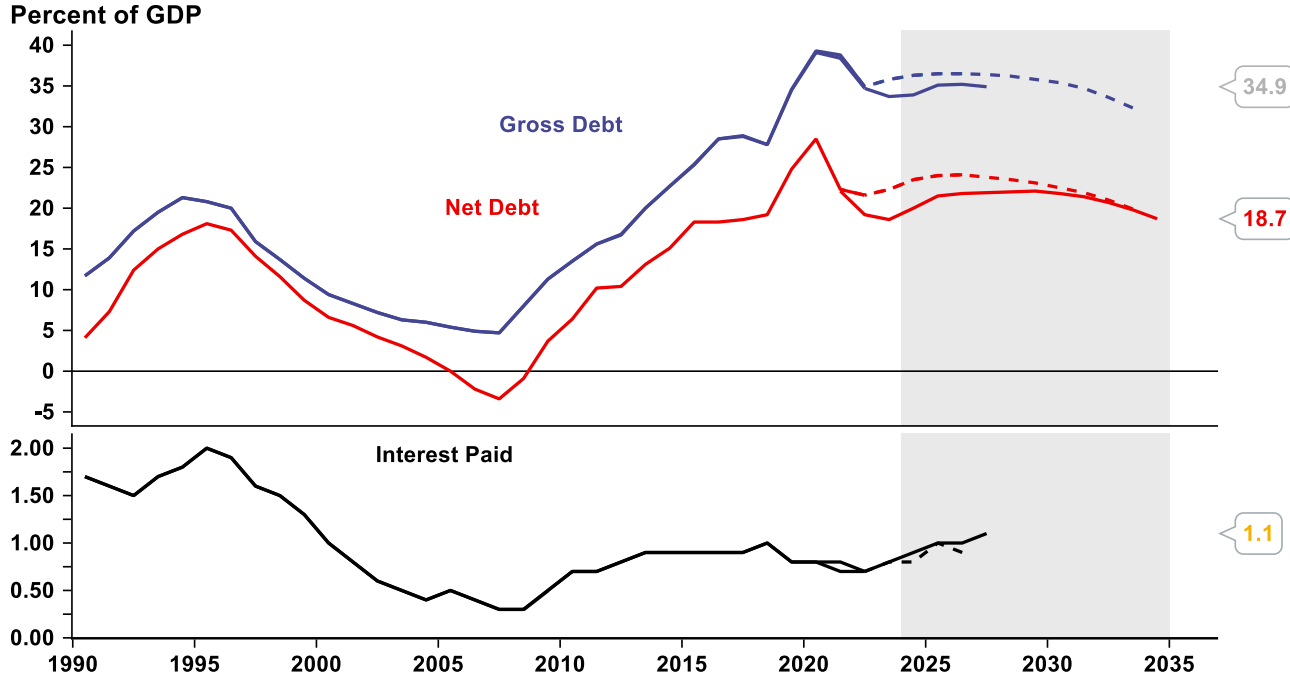
Source: National Australia Bank, AccountHouse

# The Budget: Debt is much lower than expected



The interest burden is also rising...

## Federal Budget: Medium Term Debt Outlook



X-axis shows first year of relevant financial year. Dotted lines show 2023 Budget estimates.  
Source: Macrobond, Commonwealth Treasury, NAB Economics.

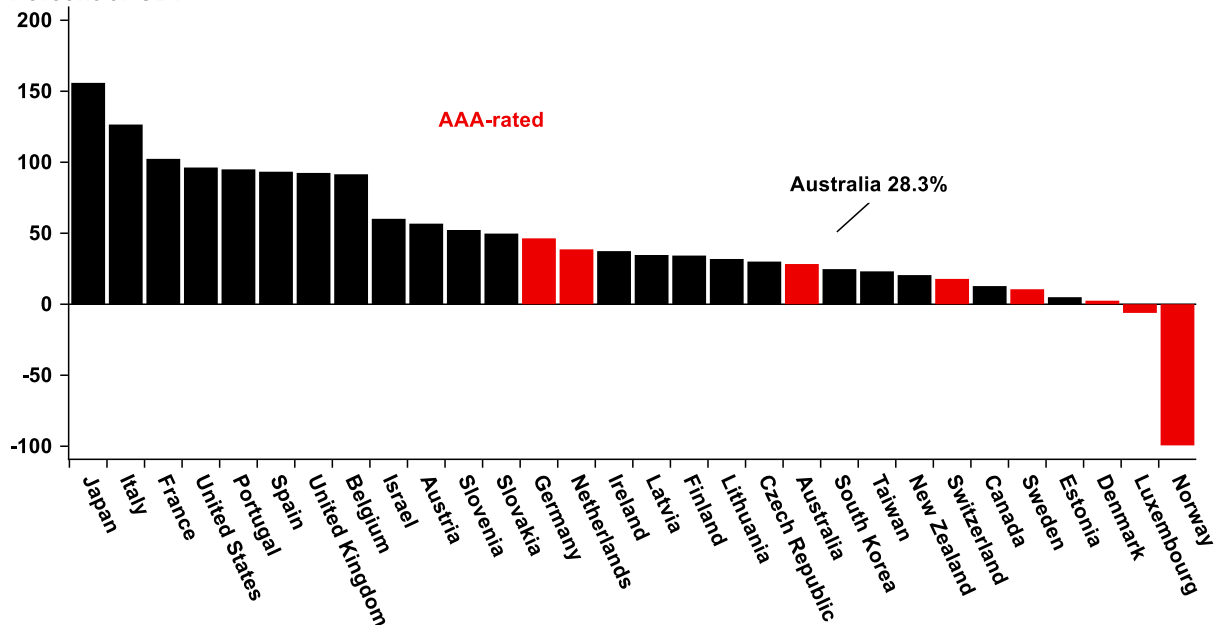
# The Budget: After everything we remain a low debt country



We certainly spent a lot during covid but showed more restraint than others in the following years...

## General Government Net Debt

Percent of GDP

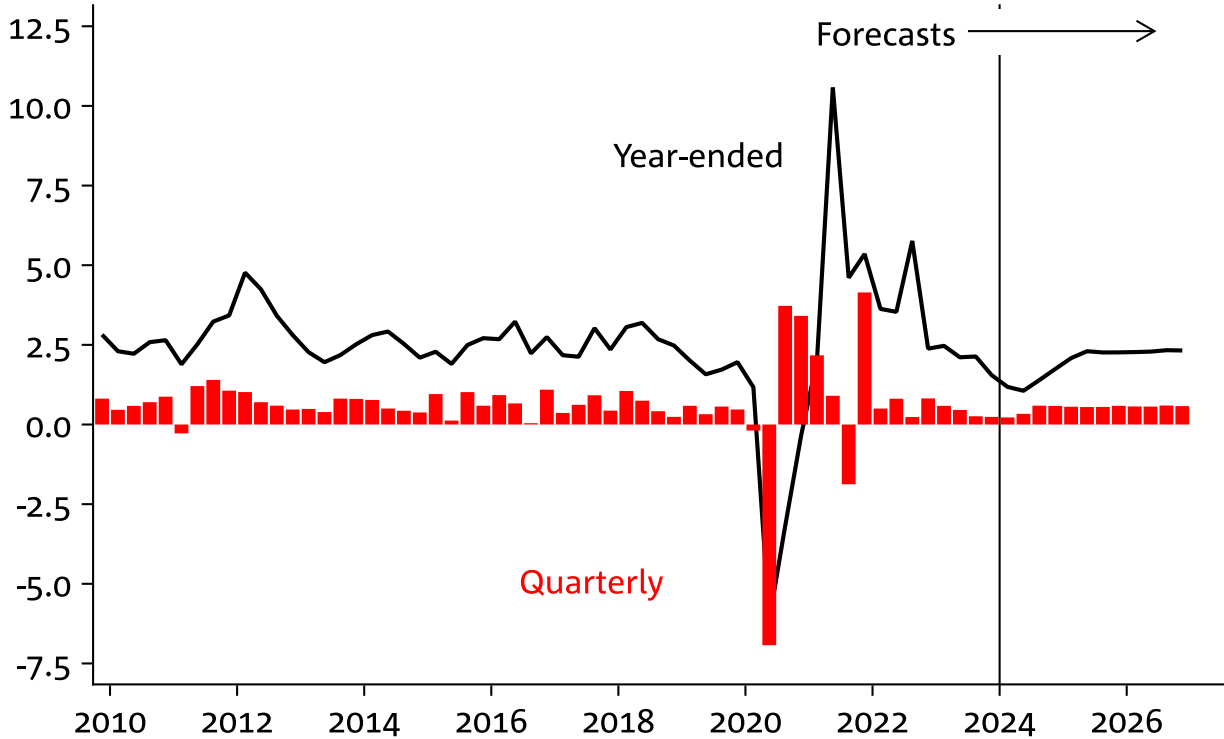


Source: Macrobond, IMF WEO, NAB Economics

# GDP



## GDP Growth (%)

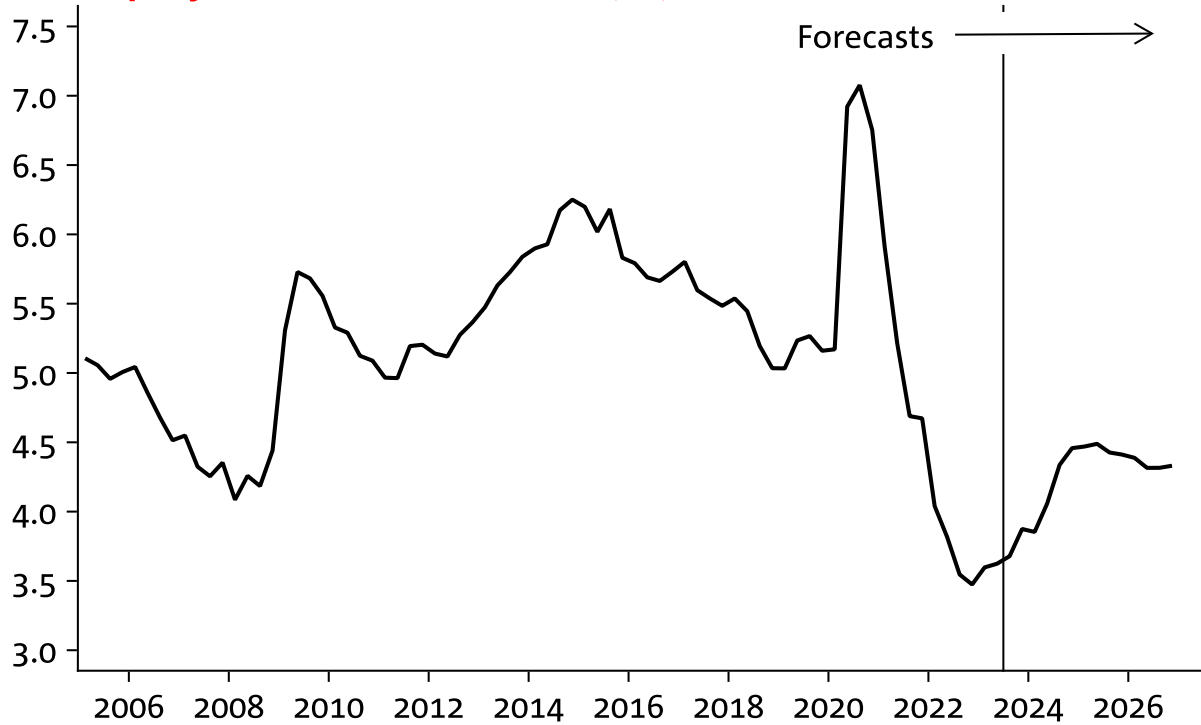


Source: ABS, National Australia Bank

# Unemployment

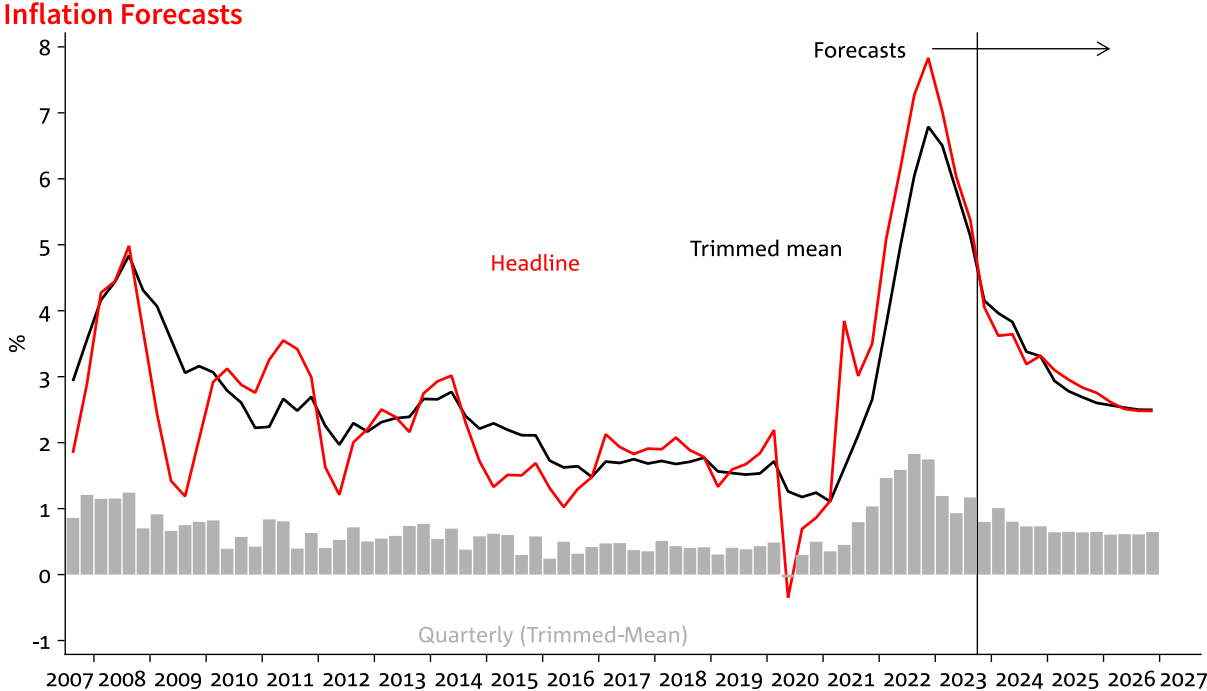


## Unemployment Rate Forecasts (%)



Source: ABS, National Australia Bank

# Inflation



Source: National Australia Bank



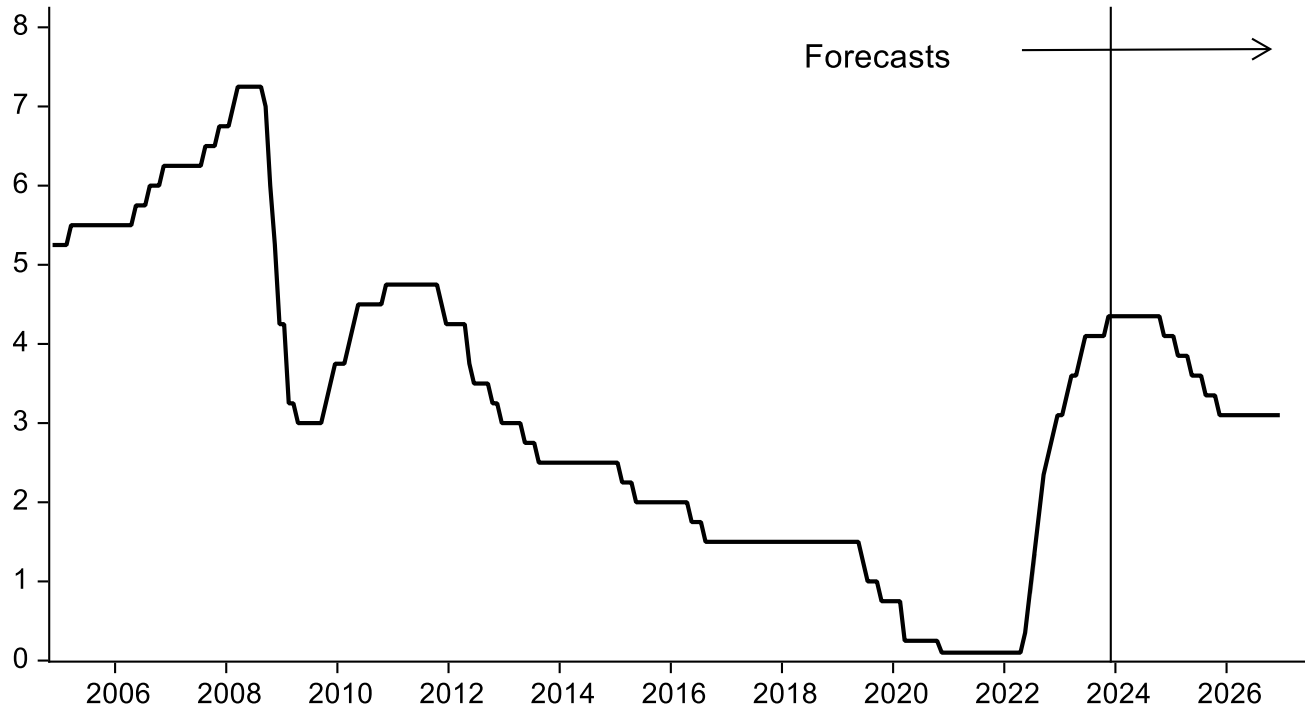
# Monetary policy 101

- The goal
  - Low and stable inflation even if 2-3% is arbitrary
  - Some inflation is good
- The reason
  - A clear, consistent target
  - High and variable inflation is corrosive, it ultimately leads to a weaker economic performance and the burden is uneven.
- The framework
  - Maximise employment while constraining inflation to target
  - Economy wide capacity/potential and unobserved concepts like Neutral/NAIRU
- The management of uncertainty and risks in the real world
  - Measurement issues
  - Uncertain lags and the reliance on forecasts
  - “Blunt” tools

# The cash rate has likely peaked, but is on hold



Cash rate target (%)



Source: National Australia Bank, AccountHouse





# Summary

- Growth will remain slow in the near-term, but we look to have avoided a major downturn. Growth will likely pickup in H2 as the pressure on consumers eases.
- Consumption is the big driver, though housing construction looks weak, business investment is mixed but the public sector has been a key support (not a bad thing).
- Labour market pressures should ease but the unemployment rate is expected to remain below “pre-COVID” – a “soft landing”.
- Population growth has been a big support to overall growth but is expected to slow.
- Demand/supply imbalance will persist in the near term. Big uncertainties about how quickly the supply side recovers
- Inflation will continue to moderate, goods prices are doing much of the heavy lifting now, but services inflation should also ease.