AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

14 May 2018

Budget sprinkles a dose of fairy dust…but is it enough to win an election?

Is this really a pre-election Budget?

Update: Adjustments to marginal income tax rates, investment in major infrastructure projects and a number of measures for health, education and social assistance have been the main focus of the Government's sales pitch. In the context of a looming election, will these sweeteners be enough to lift their standing in the polls?

This year's Budget marked a shift towards a more expansionary fiscal strategy and the first step in moving beyond the 'budget emergency' era of the Abbott-Hockey led government. With the economy on a solid footing and the prospect of an election, the 2018/19 Budget was never going to be one that saw the Government deviate from the course they set out on last year. Despite loosening the purse strings they have held strong on their promise to return the budget to balance, a year ahead of schedule no less.

Insight: This term of parliament is now too old for an early election to be called as the election must be called within the next 12 months. To that end, this Budget is aimed at building the Government's image as sound economic managers and has left room for more spending to be announced during an election campaign.

As the next Federal election must be held before 18 May 2019, this is the last Budget before the next election. If the election is as late as May 2019, then a 'Mini-Budget' in February 2019 would allow an update to the MYEFO and an opportunity for the Government to continue to talk about what they perceive as their electoral strength being sound economic managers.

What is in there for the construction industry?

Update: Throughout the lead up to the 2018/19 Federal Budget the government was uncharacteristically tight lipped about how it will effect industry. There are a number of Budget measures that will impact businesses in the construction industry.

Insight: The Government's ongoing investment in transport infrastructure will obviously generate significant demand for construction services and materials. In addition to the big-ticket expenditure measures, there are a number of other measures which are likely to affect some sectors of the construction industry. Notable items include a measure which denies deductions for investors holding vacant land, extending the $20,000 instant asset write off, banning cash payments over $10,000, additional funding for the ATO to clamp down on illegal phoenixing and a number of other measures relating to the Black Economy Task Force. Details of these measures are covered in HIA's Federal Budget Report Card which is available here: please click here

Are the Budget projections plausible?

Update: Projections about macroeconomic conditions are an integral part of the Budgeting process and they are often a source of criticism. Criticism is typically accompanied by accusations that forecasts were politicised in order to enable the Government to present a favourable budget outcome. Can we trust them this year?

Insight: Criticism of the macroeconomic projections have been negligible this year. Indeed, Treasury's outlook is relatively conservative in comparison to other forecasters. The Statement of Monetary Policy from the Reserve Bank of Australia last week provided a sneak peek into the economic backdrop for the Budget. While the RBA are independent of the Government, when it comes to economic forecasts, they are usually on the same page.

Interestingly, Treasury's forecasts presented in the Budget were more conservative than the RBA. The RBA has GDP growth rising to 3.5 per cent in 2018/19 whereas Treasury has growth reaching only 3.0 per cent. Both institutions have the same projections for unemployment dropping to 5 ¼ per cent.

Treasury are slightly more hawkish about inflation in the out years of the projections which is understandable in context of the Budget's tax cuts which the RBA would not have considered. Treasury's projection for CPI growth is around 25 basis points ahead of the RBA across 2018/19 and 2019/20.

The one aspect of the projections that has come under scrutiny the rate of wage growth. In context or recent debate about the future of wage growth globally, it was inevitable that any projected growth would be questioned.

From 2.25 per cent in 2017/18, Treasury forecast wage growth to reach 2.75 per cent in 2018/19 and 3.25 per cent in 2019/20. The RBA don't report their forecasts for wage growth in the SMP but they noted "…ongoing improvement in the labour market and a gradual increase in wages growth [are expected]…However, the outlook for growth in household incomes represents a significant uncertainty." It is difficult to see wage growth reaching the levels projected in the Budget if the labour market improvements only lower the unemployment rate to 5.25 per cent.

The fortnight ahead – key dates and releases (AEDST)

Tuesday 15 May

ABS Lending Finance, March 2018, 11:30am

Thursday 17 May

ABS Labour Force, April 2018, 11.30am

Wednesday 23 May

HIA Stamp Duty Watch, Winter 2018, 11am

ABS Construction Work Done, March Qtr 2018, 11.30am

Key Treasury Forecasts underlying Budget 2018-19:

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Underlying Cash Balance ($ billions)	-33.2	-18.2	-14.5	2.2	11.0	16.6
Underlying Cash Balance (Per cent of GDP)	-1.9	-1.0	-0.8	0.1	0.5	0.8
Unemployment Rate	5.6	5.5	5.25	5.25		
Inflation Rate	1.9	2.0	2.25	2.5		
Real GDP Growth	2.1	2.75	3.00	3.00		
Dwelling Investment Growth	2.8	-3.00	1.50	0		
Total business investment Growth	-4.0	4.50	3.00	4.50		
Mining investment	-24.2	-11.00	-7.00	3.50		
Non-mining investment	6.1	10.50	5.50	5.00		

For more information on the products and services of Australian Construction Insights (ACI) go to our website aciresearch.com.au

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

CONTRIBUTORS:

Geordan Murray Senior Economist