

Election fault lines forming: budget outcomes and the Royal Commission

The final outcome of the 2017/18 federal budget

Last fortnight's reflections on the GFC still have much currency this fortnight as we digest the latest economic and construction-related news. In particular, the government last week revealed the final budget outcome for 2017/18.

The ultimate outcome – a \$10.1 billion deficit – was a headline grabber. Firstly, it was the best budget outcome in 10 years, or rather the best budget outcome since the onset of the GFC and the various associated budgetary pressures that have been brought to bear in the ensuing decade. Furthermore, the outcome is a strong outperformance of expectations – it compares with the \$29.4 billion deficit that was originally estimated in the 2017/18 budget itself. And finally it has set in train some questions and expectations that the budget could return to that elusive surplus earlier than initially expected.

The detail of the final result is somewhat instructive on this point – that is, the details show the extent to which the outperformance was due to one-off factors versus underlying economic improvements that can be expected to be sustained and underscore a faster route back to balanced or surplus budgets:

- **Lower expenditure on NDIS payments** – the lower-than expected uptake of the NDIS could be a reflection of the scheme's teething problems. Once these are ironed out we will see the actual costs appear in the budget.
- **Lower expenditure on welfare** – this reflects the underlying economic improvement that has brought about a stronger labour market underscoring less expenditure on unemployment benefits.
- **Lower expenditure on state infrastructure projects** – this is a result of delays on various projects, so ultimately these expenses will still materialise in forthcoming budgets.
- **Greater income tax receipts** – as above, regarding underlying economic improvements driving labour market gains. Regarding tax receipts, the labour market improvements have resulted in more people paying income tax than originally anticipated.

So with some of the outperformance a result of improving economic conditions, the scene is now set for a dramatic reveal that the Turnbull/Morrison Government have returned the Budget to surplus years ahead of their own ambitious goals.

The next Federal Election must be held before 19 May 2019. There are options for the election to be held after

this date but the complications will mount and place pressure on the Government if they don't move ahead of this date.

The 2018/19 Mid-Year Economic and Fiscal Outlook (MYEFO) is the next point of interest for budget observers. The Government are required to release MYEFO by the end of January 2019 but the actual date of the release is at the discretion of the Treasurer. It could realistically be released any time between November and January. If it is tracking to show a surplus ahead of schedule then the Morrison Government will be well placed to use MYEFO as an opportunity to reveal a Mini-Budget, shortly before calling an election.

This would also put them in a situation where they could be accused of being Howard-like. That is, a Liberal Government approaching a Federal Election promising a Budget repair and income tax cuts.

If either MYEFO or a subsequent mini-budget do indeed reveal a budget surplus ahead of schedule there will inevitably be accusations of trickery from the opposition. The prospect of an independently prepared Pre-Election Economic and Fiscal Outlook to be released prior to the election should ensure that it has a degree of integrity.

For the Prime Minister, Scott Morrison, this would be his ideal scenario and assist in portraying the stability not evident in Australian politics for the past 11 years.

On the other hand, the electioneering tool most commonly used by opposition parties at an election is to run negative. The longer a negative campaign the better for the opposition and delaying an election until after the NSW election on 23 March 2019, they will have ample opportunity to create their own economic plan for a Budget in 2019.

Banking Royal Commission interim report

On Friday the Royal Commission released its interim report on misconduct in the financial services sector.

The report contains observations and analysis – much of which is scathing of the industry and the weakness of regulators, namely ASIC. The key observation:

[T]here being little threat of failure of the enterprise, and there being little competitive pressure, pursuit of profit has trumped consideration of how the profit is made. The banks have gone to the edge of what is permitted, and too often beyond that limit, in pursuit of profit...

Already the Labor Party is calling for the Commission to be given an extension of time in order for more complaints to be heard. The Prime Minister has taken steps to disarm this call with the response that he will

grant the Commission an extension, should that request actually be made. Thus far no such request has been made. In lieu of any such extension, the Labor Party is embarking on tour of the country – to cities and towns not visited by the Royal Commission – to conduct a series of ‘roundtables’ for victims and complainants of the financial services industry.

Of course the consequences of the Royal Commission will ultimately be much further reaching than the upcoming election. While the interim report makes no recommendations – these will be made in the final report – the observations and analysis provides some sense of what these recommendations may look like or at least what recommendations may be under consideration.

The risk of further regulation is unclear. The report is very critical of the regulators but also notes

ASIC has had greater enforcement powers than it has used ... [I]ncreased penalties for misconduct will have only limited deterrent or punitive effect unless there is greater willingness to seek their application.

The Commission may ultimately recommend a tougher (better funded) and more interventionist regulator that pursues court action in the face of misconduct.

The fortnight ahead – key dates and releases (AEST)

Tuesday 2 October

RBA Board Official Cash Rate decision, 2.30pm

Wednesday 3 October

ABS Building Approvals August 2018, 11.30am

Thursday 4 October

HIA New Home Sales, August 2018, 11.00am

Friday 5 October

AiG-HIA Australian PCI, September 2018, 8.30am

Wednesday 10 October

ABS Building Activity, June 2018 quarter, 11.30am

Friday 11 October

ABS Housing Finance, August 2018, 11.30am



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