



AUSTRALIAN CONSTRUCTION INSIGHTS  
Research powered by HIA Economics

# Construction Brief

15 October 2018

## So we said election fault lines were forming...

### Business tax cuts for SMEs fast tracked

The PM announced on Thursday last week that the government would fast track legislated tax cuts for businesses with annual turnovers capped at \$50 million.

Rates will be reduced to 26 per cent in 2020/21 and then to 25 per cent in the following year. As we had suggested a fortnight ago, the government is using its improved budget position to fund this initiative. The coalition's scrapping of its big business tax cuts is also being used to fund the decision.

The opposition was quick to neutralise this announcement by supporting the move on Friday. To distinguish themselves, the opposition made the election commitment that it would fund the fast-tracking of the tax cuts by delaying for one year its Australian Investment Guarantee scheme, its program of accelerated depreciation.

With parliament sitting this week, the cuts have a clear path to being legislated. In the meantime, what's left of the debate looks to be quickly evolving from one about tax rates into now being focused on fiscal responsibility.

Regular readers of our fortnightly brief will recall our expectation of a government announcement of this kind to be made in and around MYEFO. While this tax cut announcement happened a little earlier than we expected, a mini-Budget is still something to keep an eye out for – a curtain raiser for an all-out election campaign.

Irrespective of how this initiative weaves its way into competing election narratives and campaigns, the tax cut for small and medium-sized businesses will provide decent support for the domestic economy and ultimately the construction sector when it starts to take effect in 2020/21. This could provide support to what has been the poor cousin in construction for many years now, commercial building and construction.

### A Population Policy?

In what also had much of the trappings of an election campaign speech, the Minister for Cities, Urban Infrastructure and Population, Alan Tudge, last week gave a wide-ranging but still relatively high level speech outlining key elements of the Coalition's plan or strategy regarding population and infrastructure.

Whether a formal population policy with specified targets or caps on population numbers and growth rates will actually follow is unclear. Australia has not had such a policy since the immediate post World War II period. There have been attempts since, with the most recent

failure being the Rudd government's 'Big Australia' policy. The speech nevertheless contained important elements relevant to the construction sector:

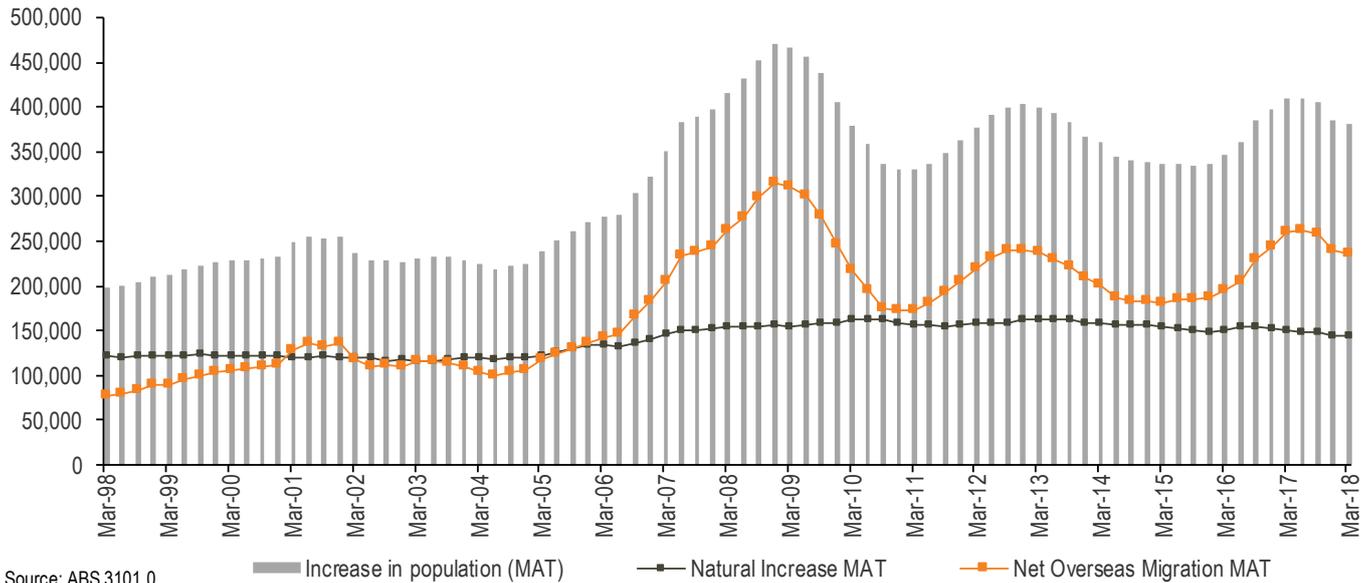
1. **Infrastructure spending** – no extra expenditure was announced, but the way seems to have been paved. As we keep saying, we probably won't have to wait until the May Budget to hear about additional expenditure. The business cases for three potential rail projects are already underway and due to be finalised early next year – Newcastle to Sydney, Sunshine Coast to Brisbane, and Shepparton to Melbourne.
2. **Regional growth and immigration settlement** – regional growth is set out to be supported by infrastructure spending, in the same vein as the projects described above. It is also set out as being supported by new immigration policy that would require newly-arrived immigrants – those not directly sponsored by employers and those not arriving on family reunion visas – to go to the smaller states and regions and remain there for 'at least a few years'.
3. **Population planning framework** – more regular and systemic engagement with the states to determine population objectives for each region and better aligning federal and state infrastructure expenditure to support these objectives.

The intimations for additional infrastructure expenditure is obviously very encouraging for the construction sector. However, with construction already in the midst of an unprecedented boom in public works, there are growing risks that the sector will encounter capacity constraints and associated price pressures (similar to what was experienced during the height of the mining construction boom) as many of these major projects will overlap. The population planning framework will be important in mitigating the looming risk.

The plan for directing immigration to smaller states and regions is potentially a concern. It represents an additional requirement to an already long list for potential immigrants looking to move to Australia. Moreover the key challenge, as the Minister himself acknowledged, will be to match the skills of new migrants with the skills shortages in rural and regional Australia. If policy makers are truly committed to growing regional communities then they should be looking at strategies to create vibrant regional economies. It would be far better if the benefits of life in regional areas were more appealing; firstly to retain existing residents (many of whom are migrating to bigger cities); and secondly to

entice city dwellers moving voluntarily irrespective of whether they are new to Australia.

**Australia's Population Growth by Component - Moving Annual Total**



**The fortnight ahead – key dates and releases (AEST)**

**Tuesday 16 October**

HIA Affordability Report, September 2018 quarter, 11.00am

ABS Lending Finance, August 2018, 11.30am

RBA Board Monetary Policy Meeting Minutes, 11.30am

**Thursday 18 October**

ABS Labour Force, September 2018, 11.30am

**Tuesday 23 October**

HIA-CoreLogic Residential Land Report, June 2018 quarter, 11.00am



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