



Federal Budget 2015/16

ACI Snapshot: the Federal Budget 2015/16 – a guide for the construction industry

A myriad of analysis, reports and commentary has inevitably surfaced about the 2015/16 Federal Budget brought down last night. What does the budget mean specifically for construction activity?

Key observations for the construction industry:

- The direct impacts of Federal Budgets generally on the construction industry pertain to the level of infrastructure spending.
- The 2015/16 Federal Budget provides a number of new expense measures on infrastructure. However, the level of expenditure committed to in the Budget is unlikely to arrest the overall trend decline in public sector construction activity.

The centrepiece of the Budget is an immediate tax deduction for every asset that small businesses buy which cost less than \$20,000. The desired effect of this measure is to encourage business spending and investment, although whether this comes to fruition is very uncertain, given just how pervasive and enduring weak confidence has been within the Australian domestic economy. Bigger businesses have not received equivalent incentives.

- If this small business measure brings about the desired effects, this would have some positive flow-on (though unlikely immediate) effects for construction in the medium term.
- While key infrastructure expense measures in last year's Budget focused on Western Sydney, much of the focus this year is directed to Northern Australia.
- Infrastructure spending in last year's Budget centred around the Infrastructure Growth Package, with a focus on Western Sydney. Major projects in last year's Budget included the fast-tracking of stage 2 of WestConnex through a \$2.0 billion loan. While Stage 1 of WestConnex commenced construction in March this year, Stage 2 is yet to commence. Major roads and transport infrastructure around a second Sydney airport Badgerly's Creek received \$2.9 billion over 10 years. The second airport itself has a start date listed as 2016, while an associated \$5 million upgrade to Bringelly Road commenced construction in 2015.
- As noted above, this year's budget focuses on Northern Australia (see expense measures below). While not a major expense measure, per se, the Budget has included a \$5 billion concessional loan facility for infrastructure projects in Northern Australia. Loans from this facility will be available over the three years starting in 2016/17, which will provide some impetus for additional infrastructure construction. Examples of major projects currently under consideration that could potentially benefit or be fast-tracked include an \$11.2 billion Perth-Darwin National Highway and a \$3.5 billion railway spanning 600 kilometres between Port Hedland and the Pilbara.
- To put the overall expense measures in the Budget (see the key measures listed below) in some perspective: public sector construction activity in 2014 summed to \$36.1 billion, which represented a 14.6 per cent decline from 2013 and was 32.1 per cent lower than the peak level of public construction activity in 2010.

Note: A summary of the economic forecasts and budget figures released last night can be found in the appendix.



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Construction information – Key new expense measures

- \$105 million over four years for infrastructure projects in Northern Australia. The majority of this (\$101 million) is for improving northern cattle supply chains, with a particular focus on road infrastructure.
- \$35 million over four years for a local council grants program for infrastructure projects in drought-affected areas. Funding will be targeted at projects that offer the greatest potential to stimulate community spending as well as longer term benefits to the relevant community.
- An extra \$50 million over three years to augment and extend the Community Development Grants Program. This program provides financial support for infrastructure in local and regional economies. The program commenced in the 2013/14 financial year, initially with around \$300 million of funds for grants and was scheduled to cease on June 2017. This end date has been extended by one year.
- \$45 million over two years to fund small capital projects (those which deliver social benefits to the local community) put forward by community groups.

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Appendix – Key Economic and Fiscal Parameters

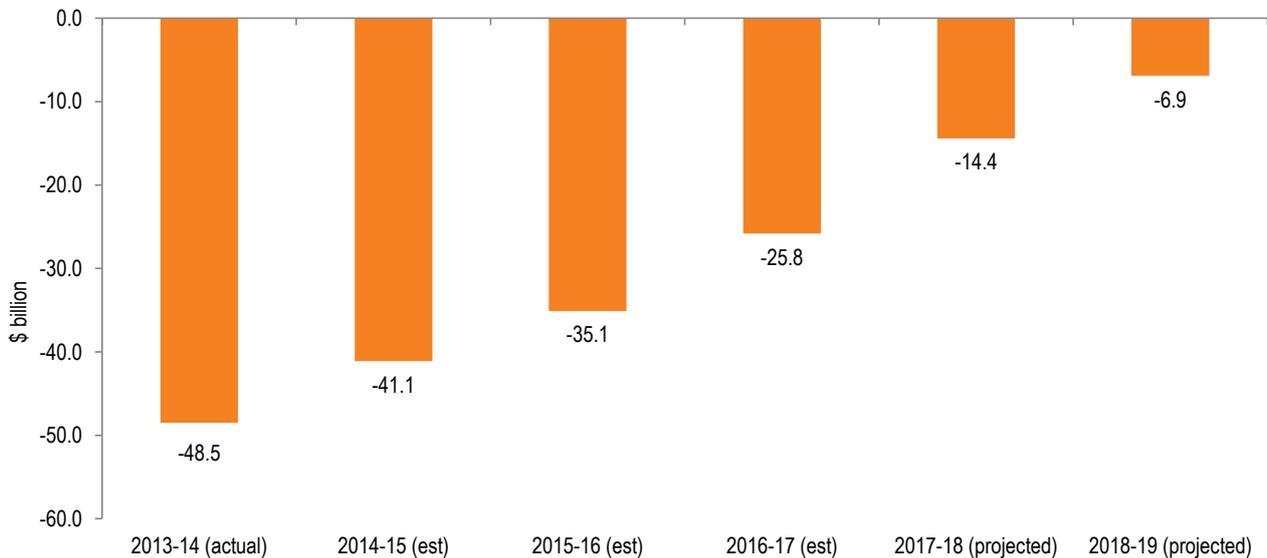
- The Federal Budget has been handed down against a backdrop of continuing uncertainty about Australia's economic prospects over the medium term. The historically low official interest rate has had some stimulatory effect, although this has been largely contained to the residential construction sector.
- Outside of residential construction, business confidence remains subdued and business investment and job creation have performed accordingly. The national unemployment rate has risen to 6.2 per cent over the last year, and capital expenditure intentions for the year ahead suggest little improvement in private business investment.
- The decline in resources-related investment continues to unfold, and the sharp decline in the iron ore price during the year has played havoc with government revenue projections. The iron ore price currently sits just below USD\$60 per tonne, but budget projections rely on an average price of \$48 per tonne over the forecast horizon. The iron ore price will be highly dependent on developments in China and there are divergent views on the trajectory of this economy over the medium term.
- The latest read on Australia's economic growth is for calendar year 2014 when economic growth slowed to 2.5 per cent. The Commonwealth Treasury expects growth to remain at this rate for the 2014/15 fiscal year, then improve moderately to 2.75 per cent in 2015/16 before strengthening to 3.25 per cent in 2016/17.
- The forecasted rates of unemployment reflect the view of further sub trend economic growth. As mentioned above, the unemployment rate in April was 6.2 per cent, and the Treasury has forecast unemployment to edge higher to 6.5 per cent in 2015/16 before moderating to 6.25 per cent in 2016/17.



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Federal Budget Underlying Cash Balances, 2013-14 to 2018-19

Source: Treasury



- In terms of the government's budgetary stance, the fiscal year 2014-15 is expected to show a deficit of \$39.4 billion, equivalent to 2.5 per cent of GDP. This will be followed by a \$33.0 billion deficit (2.0 per cent of GDP) in 2015-16 and then progressively smaller deficits into the Budget's 'out years' – 2016-17 and beyond.

Federal Budget Cash Aggregates: Receipts and Payments, 2013-14 to 2018-19

Source: Treasury

