

October 2020

# Budget & Economic debrief

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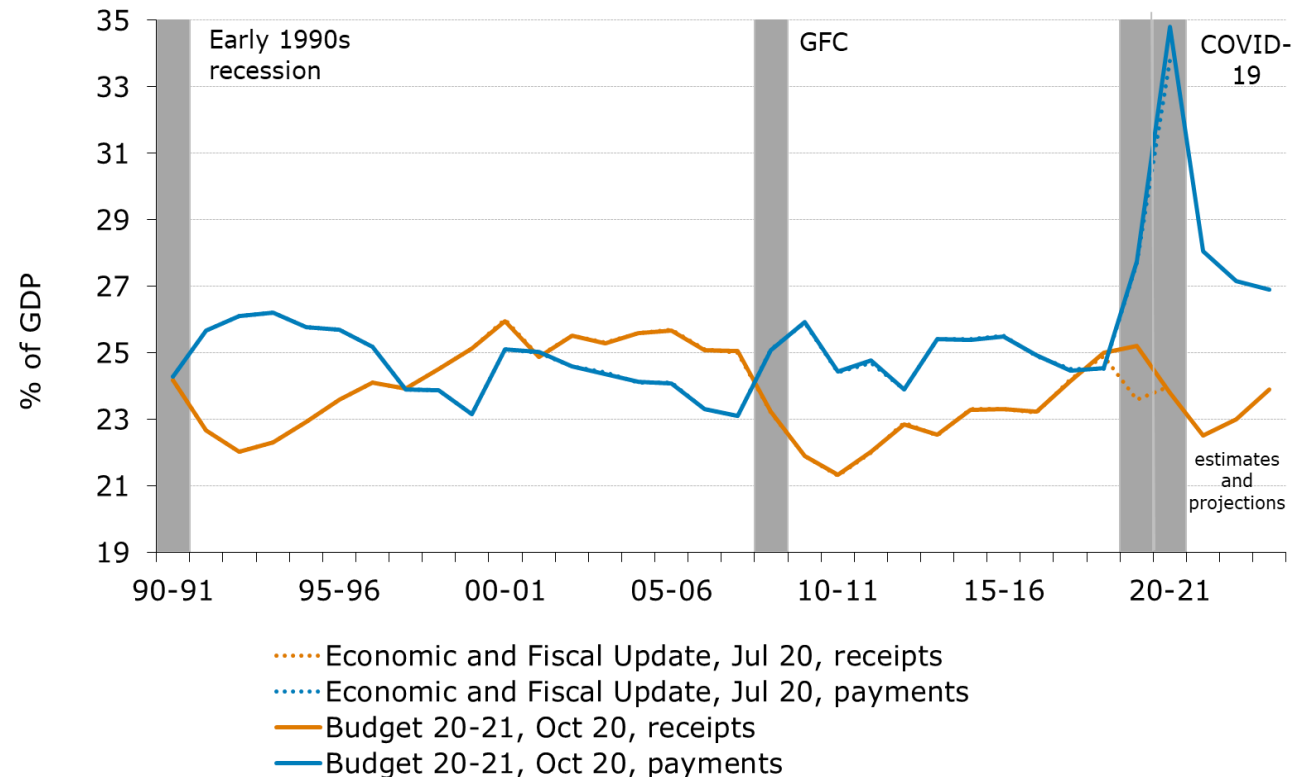
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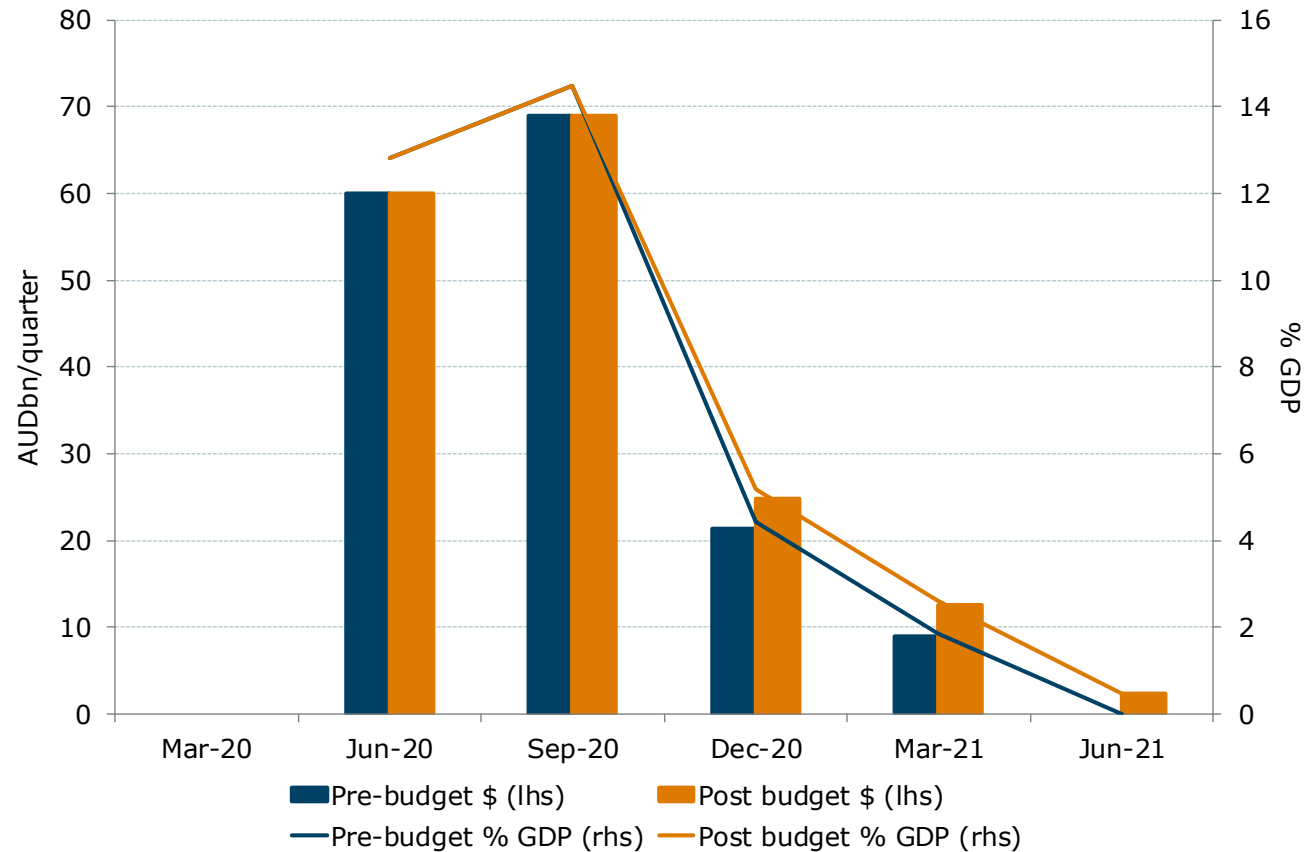
Payments are expected to rise to 35% of GDP and receipts are expected to bottom at 22.5% of GDP

## Receipts and payments



# The 'fiscal cliff' remains significant in the December quarter

## Direct fiscal income support\*



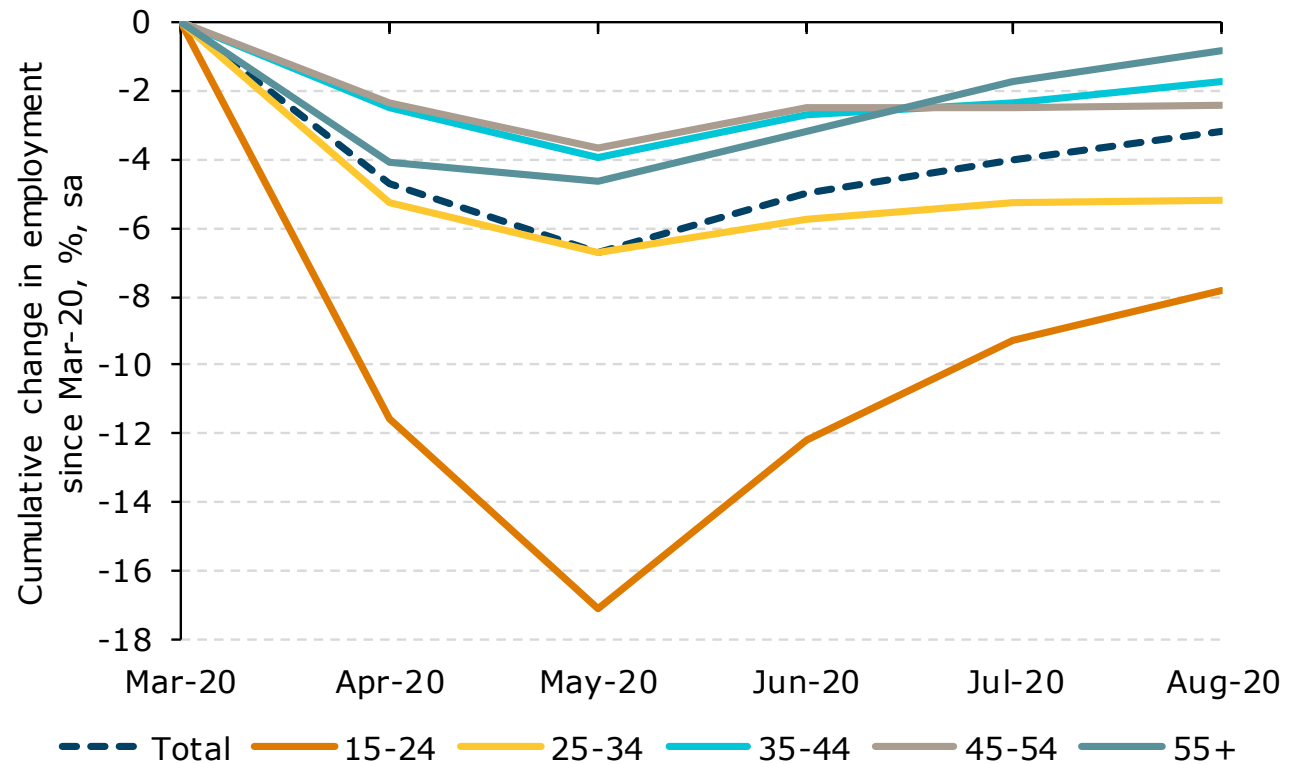
\* Includes JobKeeper, JobSeeker, Boosting Cashflow for Employers, Household stimulus payments, and Personal income tax cuts, some assumptions made by ANZ about timing

Source: ABS, Various Federal Budget Papers, ANZ Research



A big focus on youth employment reflects the disproportionate impact of COVID-19 on these workers

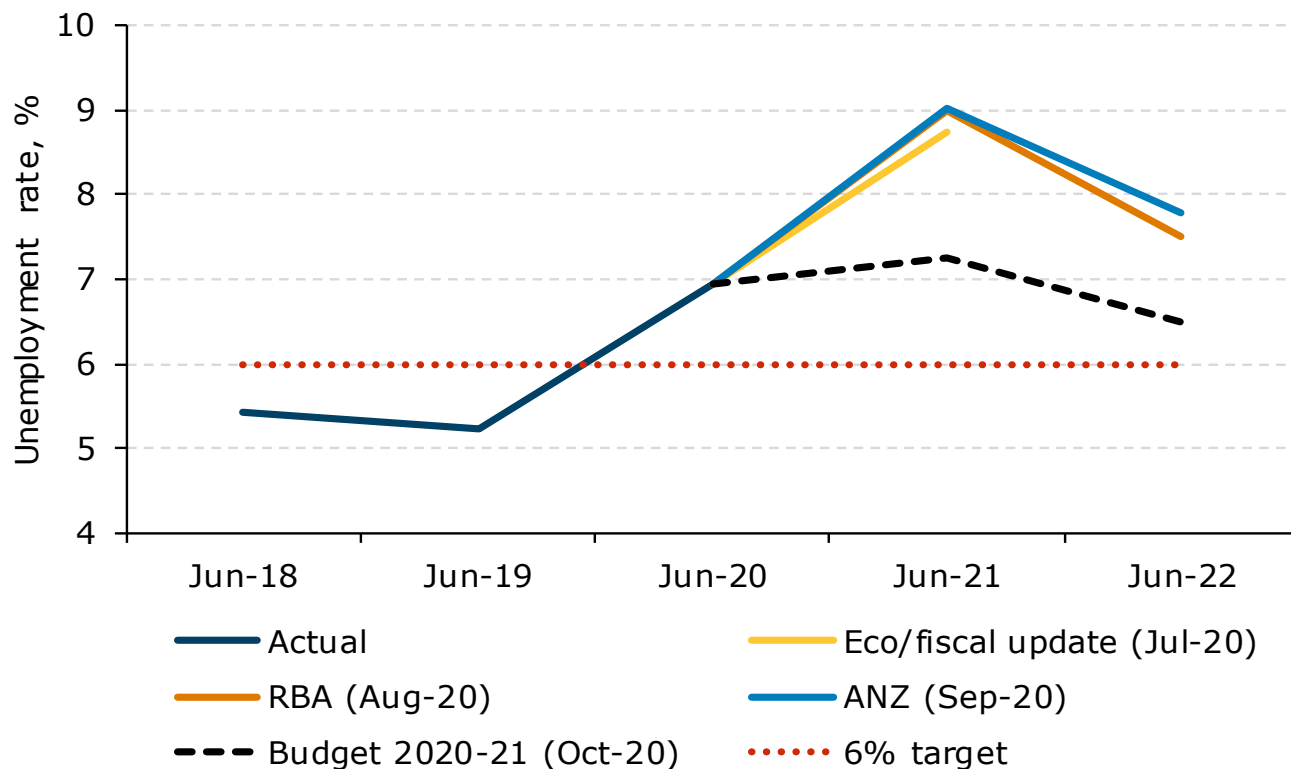
### Employment change by age since March



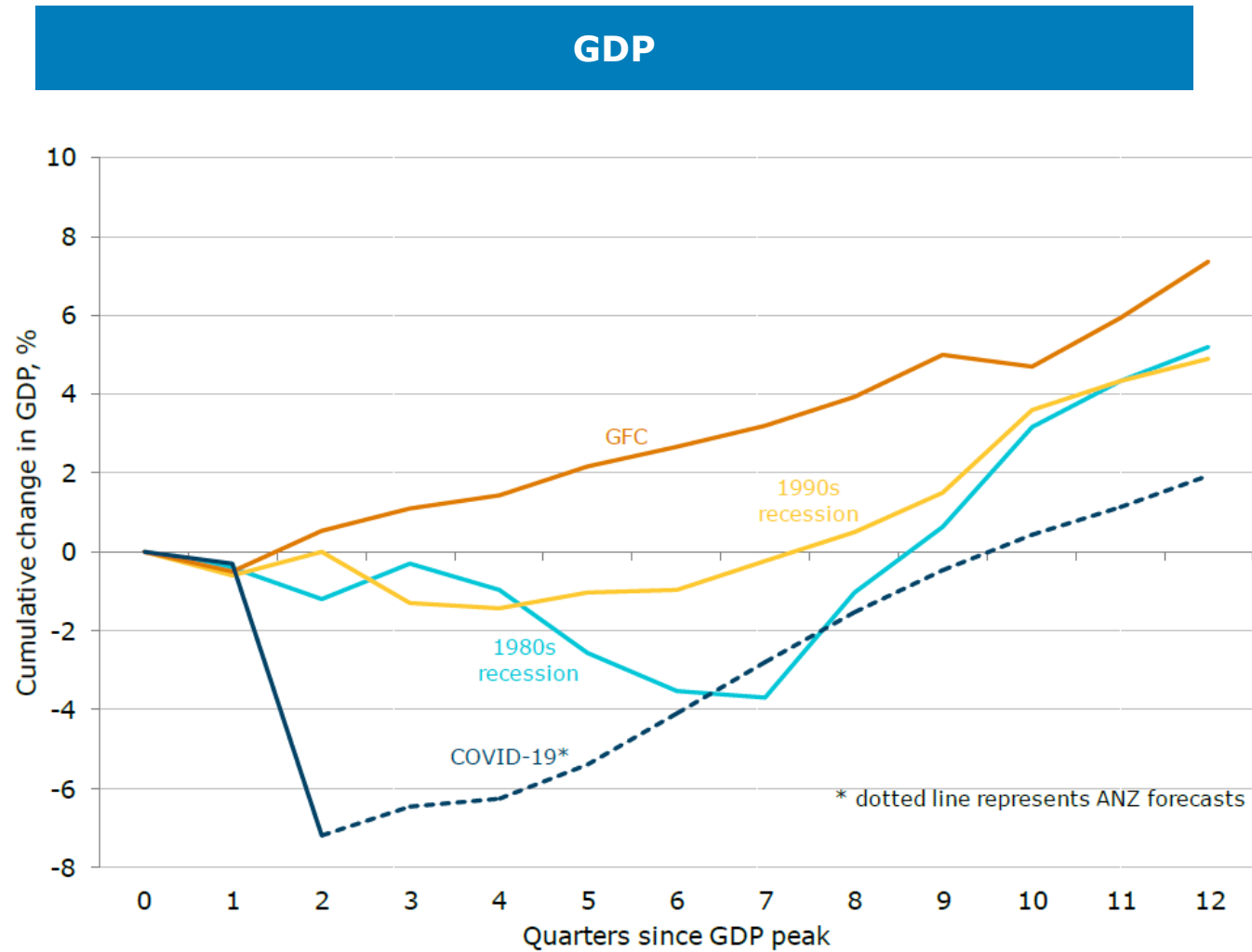
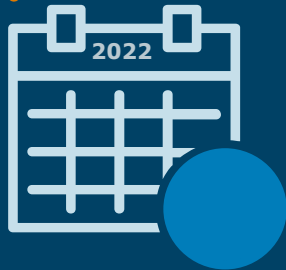


The fiscal focus is on confidence, jobs and growth until the unemployment rate is back below 6%

### Unemployment rate forecast



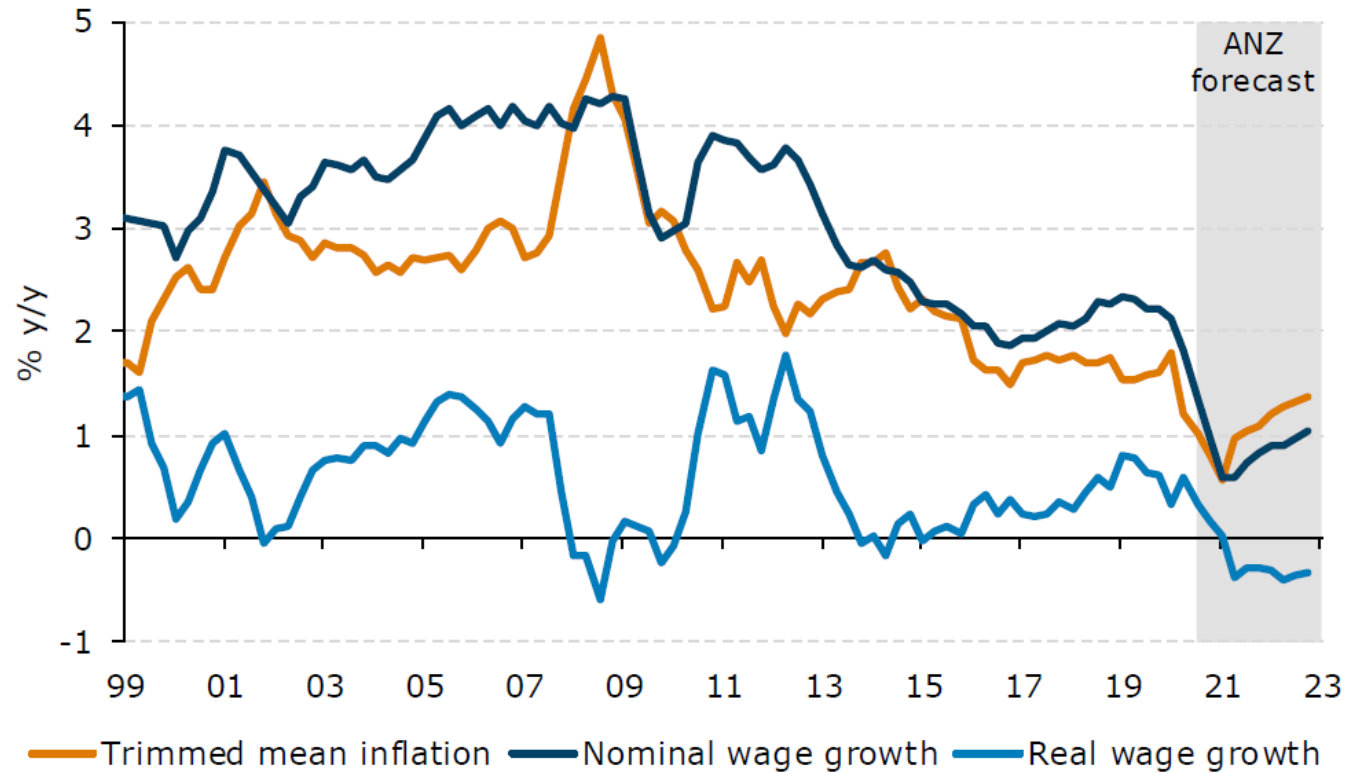
# GDP is not expected to reach its pre-crisis level until H2 2022





We expect real wage growth to turn negative, reducing households' purchasing power

### Wage growth



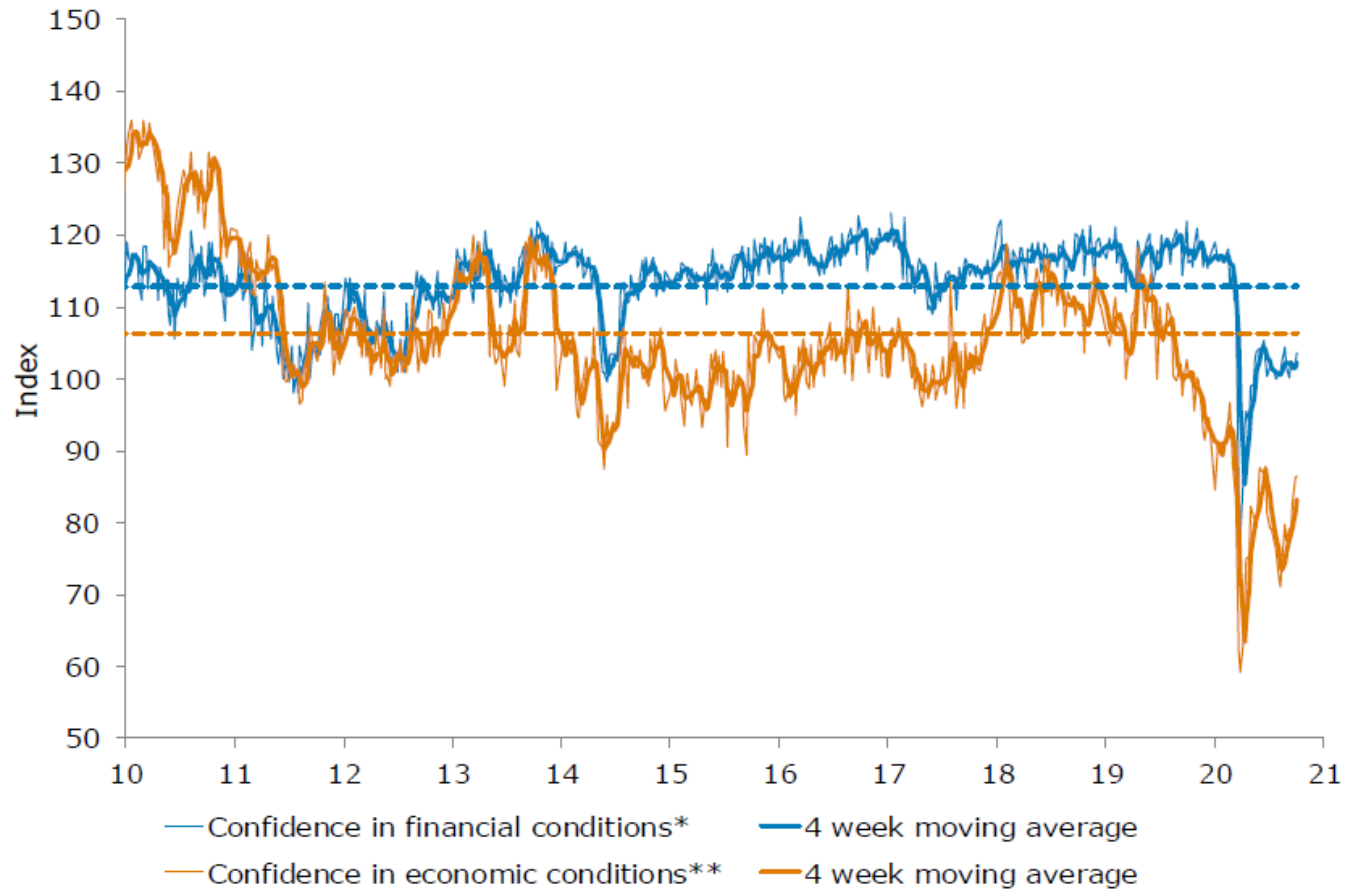
Note: Forecasts from mid-June, before Q2 data updates, return to restrictions in Victoria

Source: ABS, ANZ Research



# Consumer confidence has improved for five weeks straight as Vic cases fall

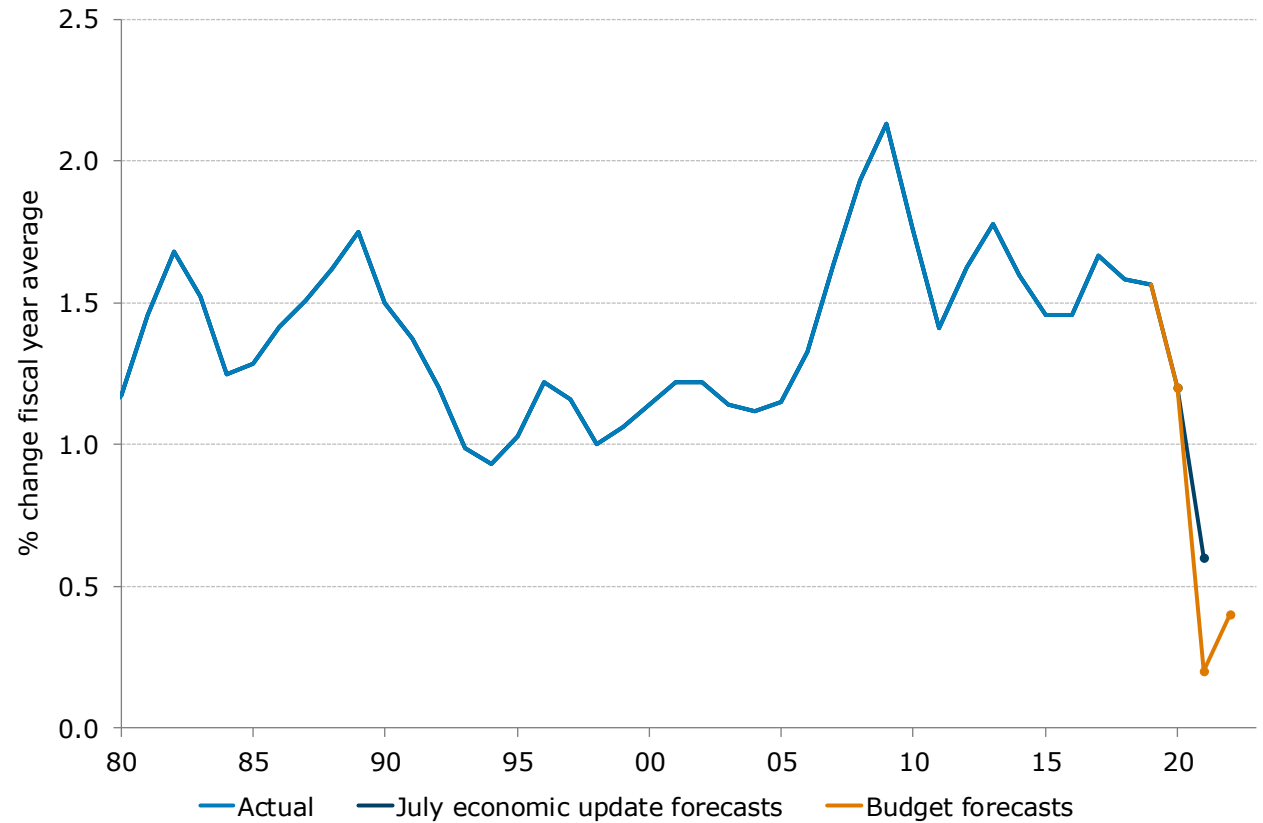
## Consumer confidence Financial conditions and economic conditions





# Population growth is set to fall even further

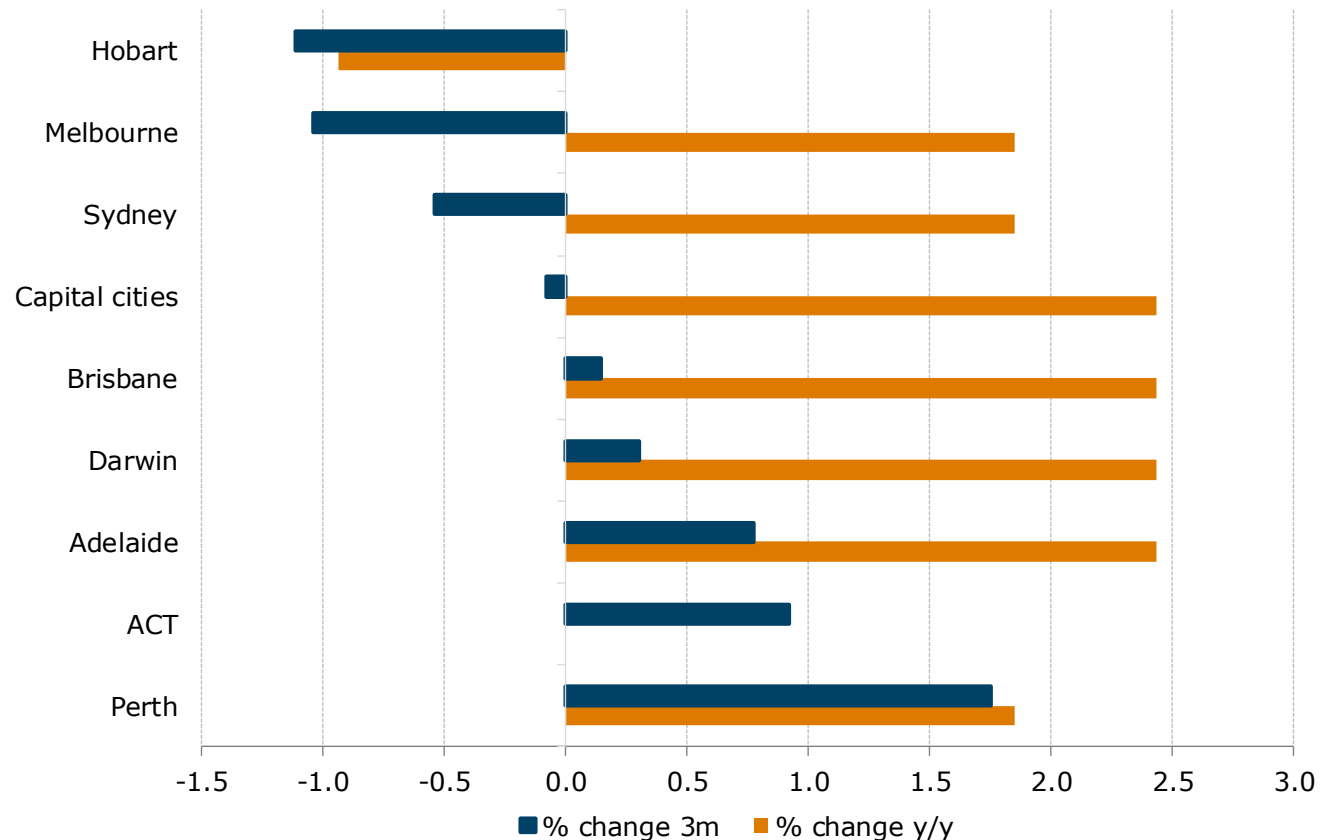
## Population



# Rents have fallen in the large cities and Hobart, dampening investor appetite

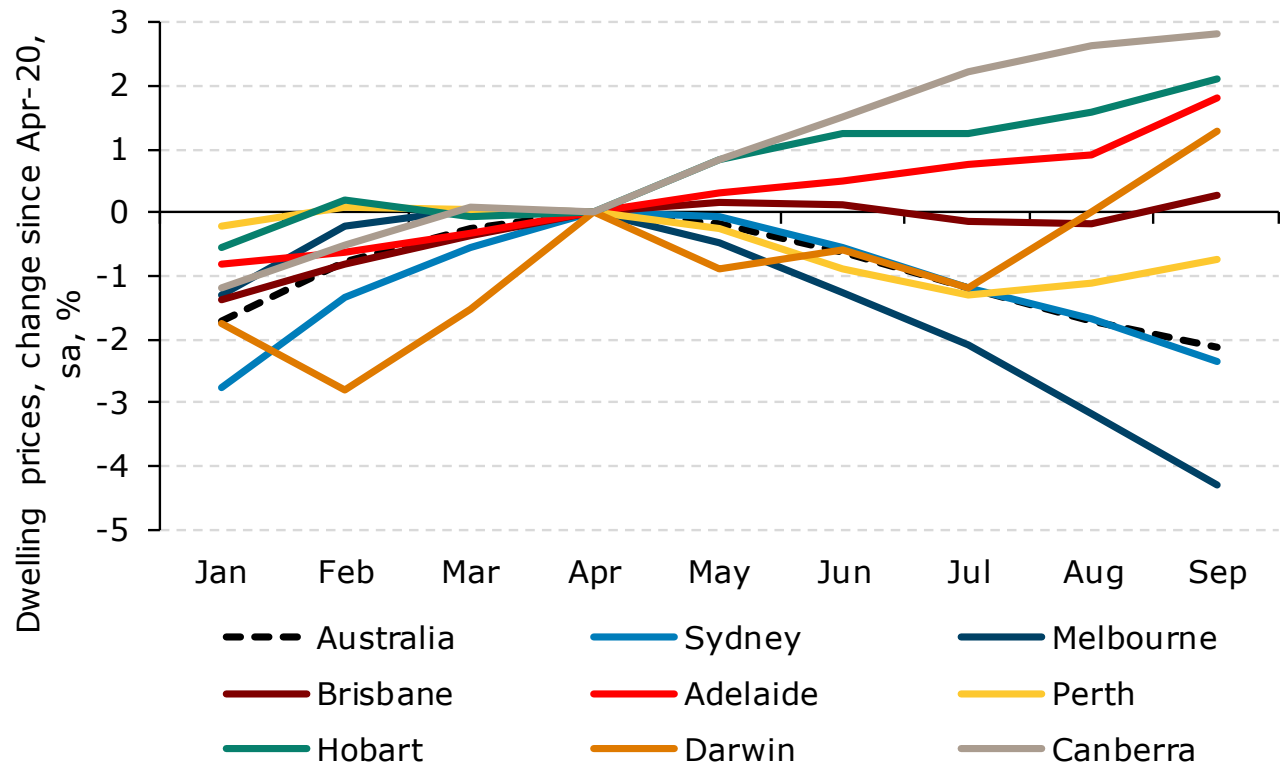


## Rents, 3 month and 12 month % change



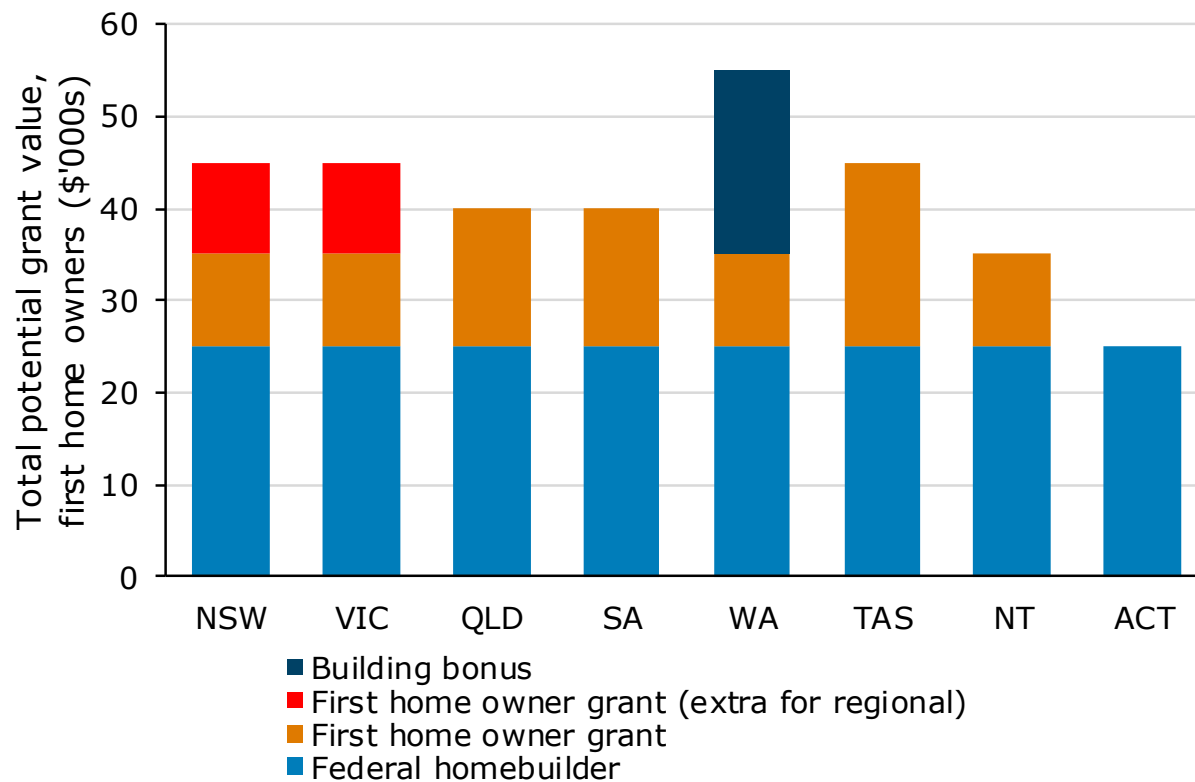
# Housing prices have fallen furthest in Melbourne, followed by Sydney and Perth

## Housing price changes, April to September



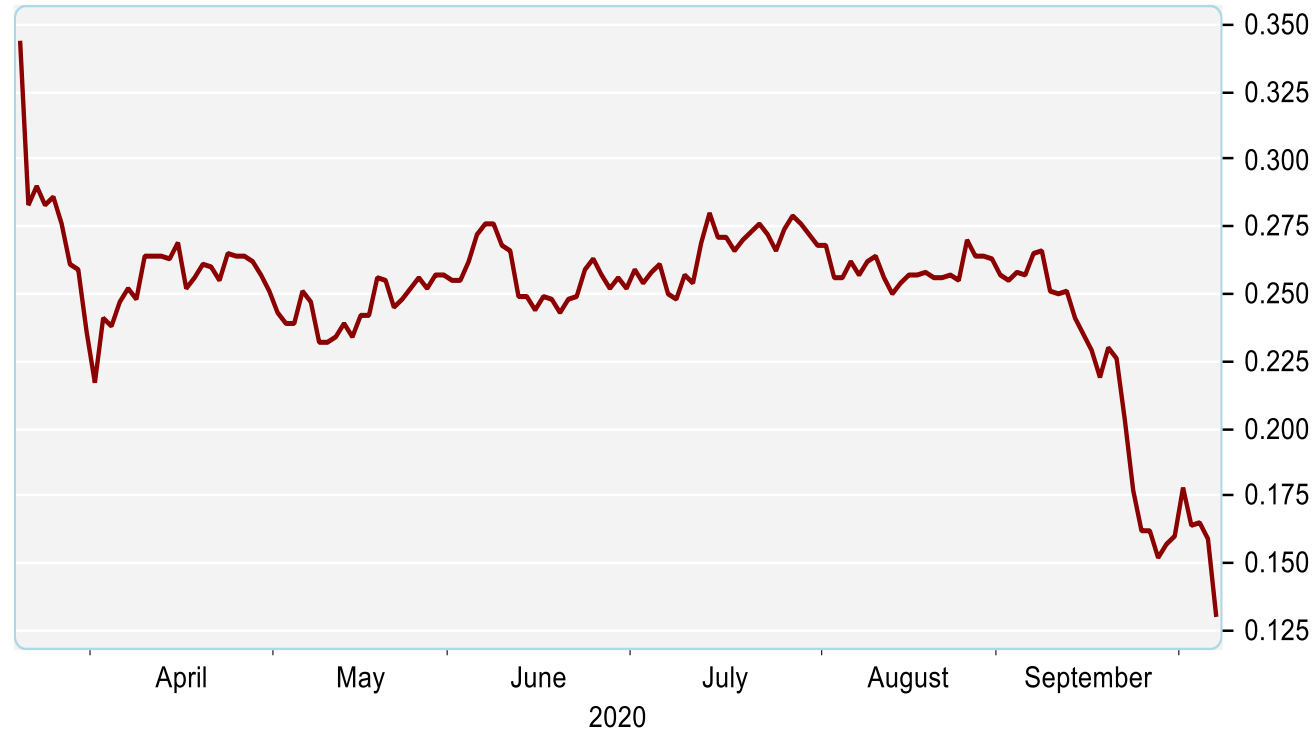
# First home owner grants

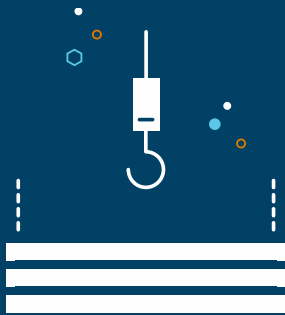
## Potential first home owner grants available, by state



We expect the RBA to cut cash rate to 0.1% in Nov; QE likely; TFF to be extended next year

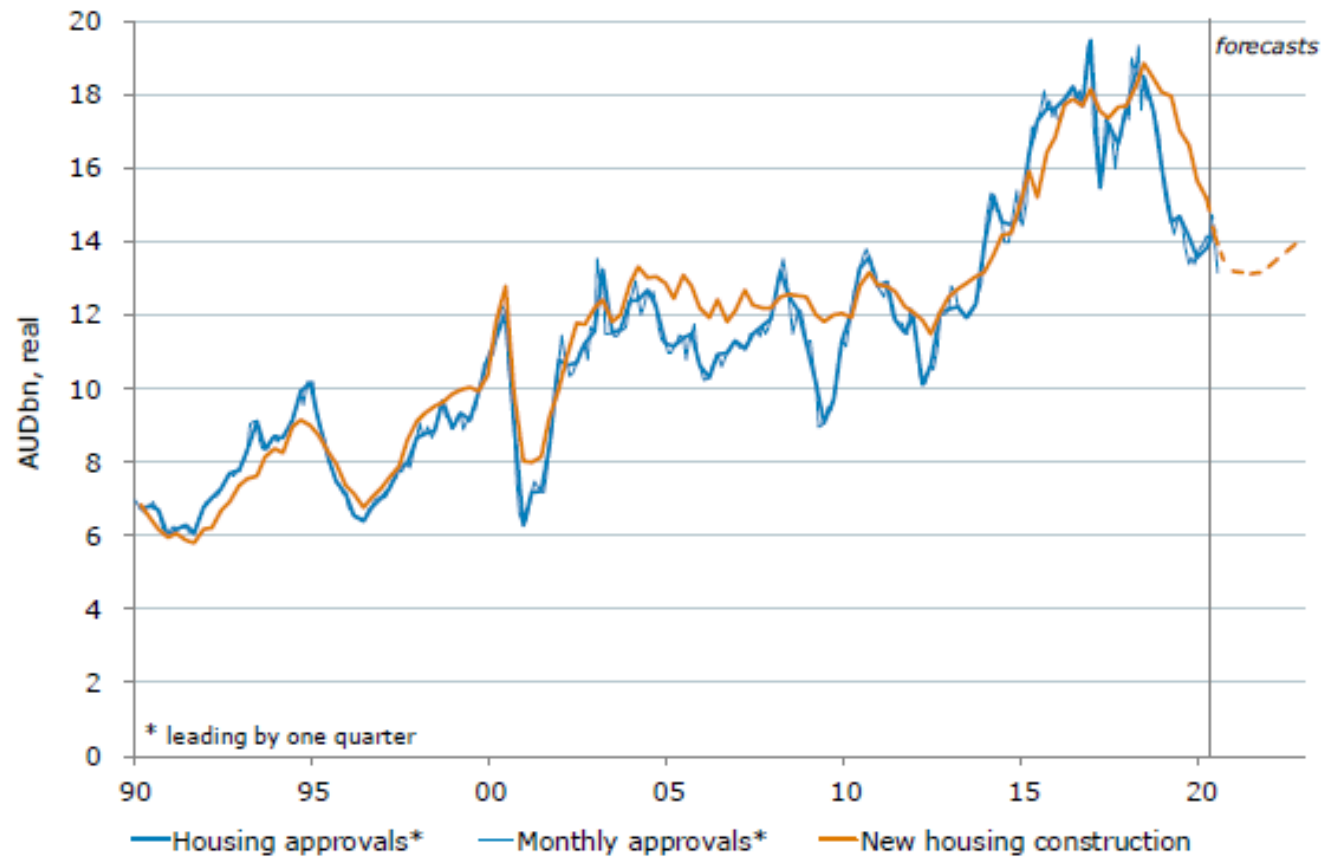
### 3y ACGB yield (currently April-2023s)





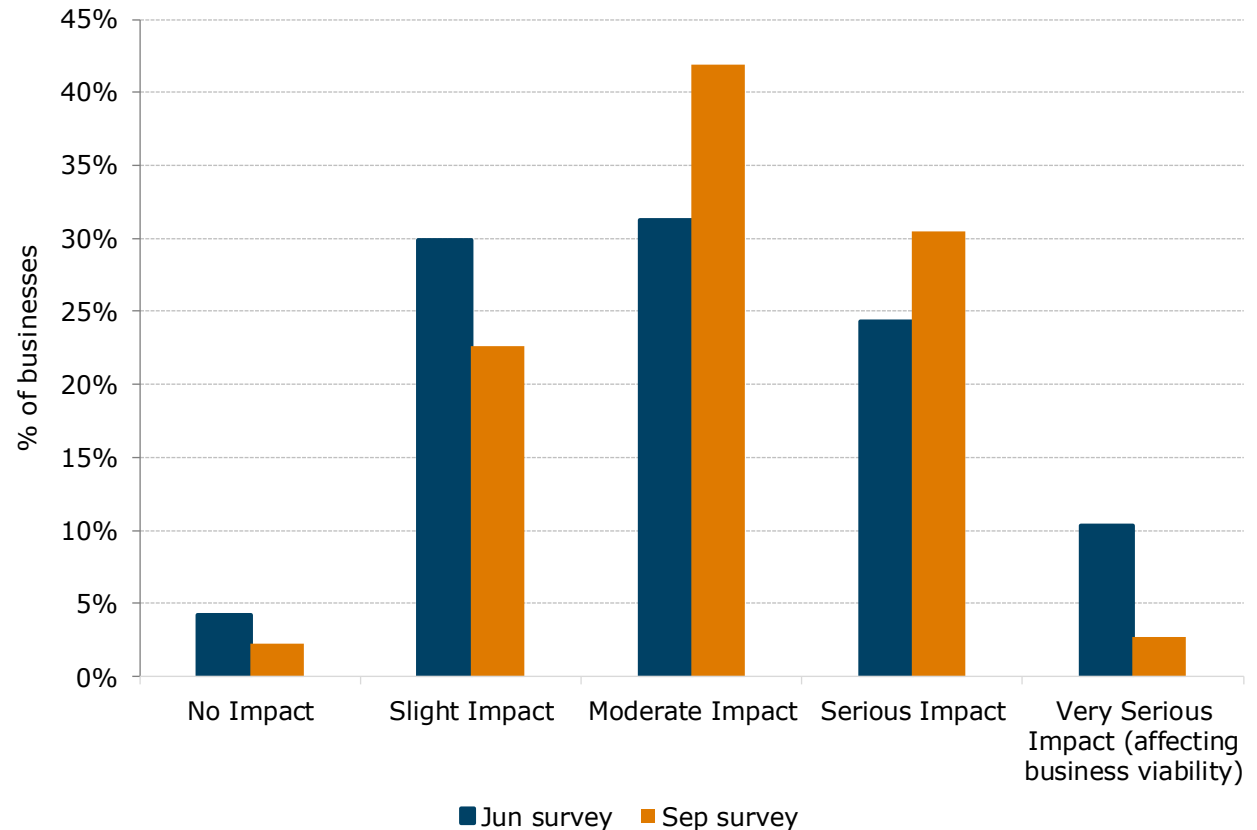
# Housing construction to continue to decline but HomeBuilder should cushion the fall

## Housing construction forecasts



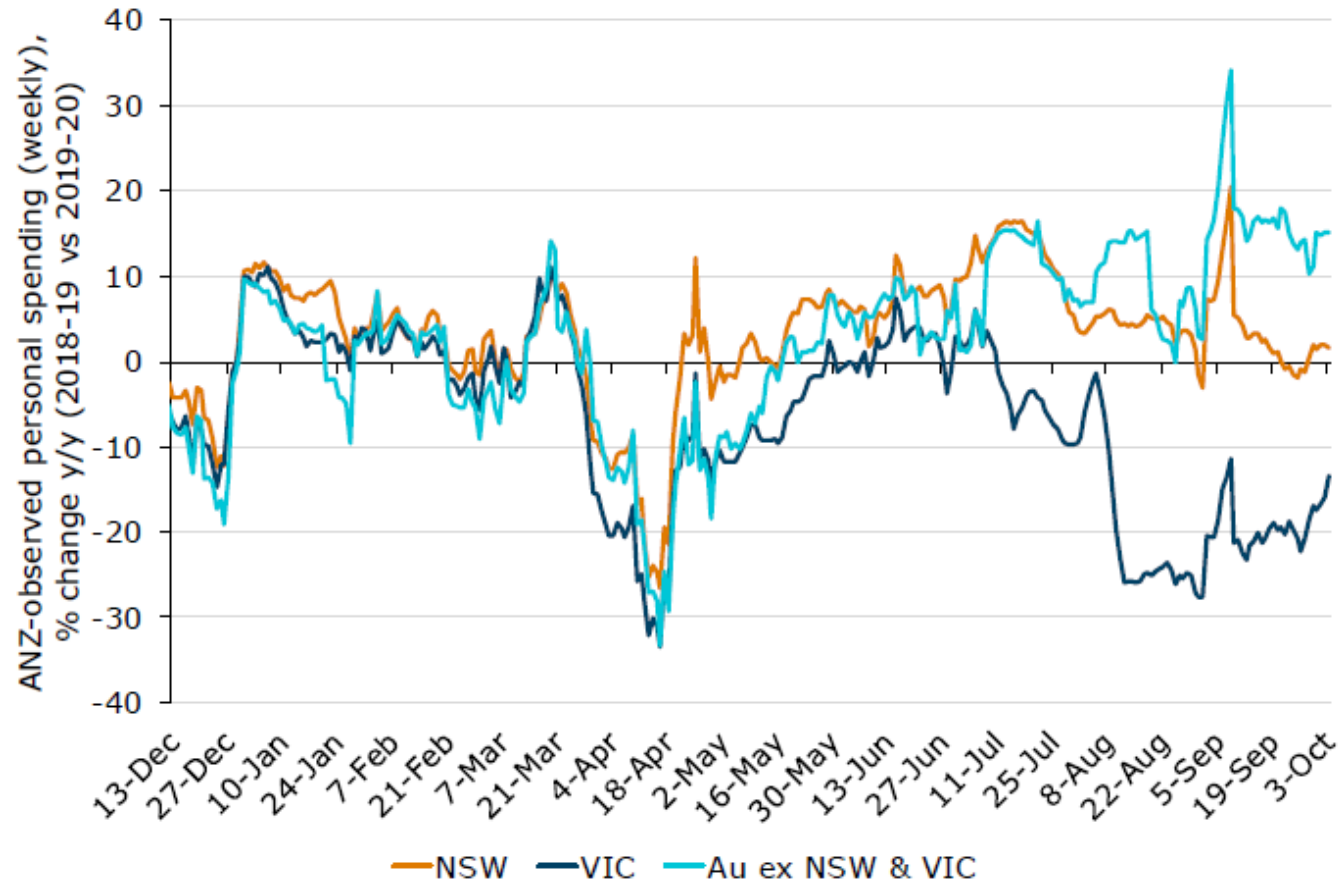
# ANZ-PCA survey shows the pandemic continues to weigh on confidence in the property sector

## Impact of the pandemic on business in the current quarter



# Victoria should be past the lowest point in spending

## ANZ-observed spending – Australia and states



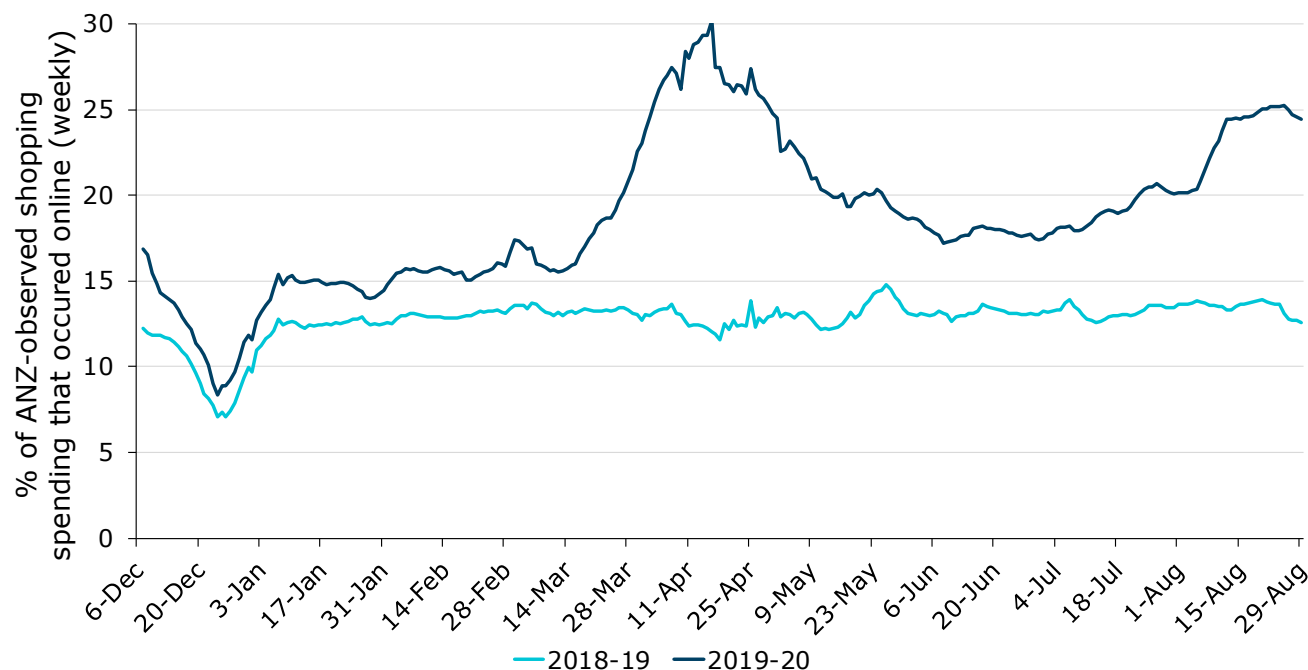
All ANZ card data have been de-identified, de-sensitised and aggregated before being analysed. ANZ spending data were not scaled up to represent total spending, and only include spending by ANZ cardholders and transactions for merchants that use ANZ point-of-sale terminals. The market share of ANZ cardholders and ANZ point of sales terminals differs between categories and over time. The changes in spending between December and February are still a good proxy of consumer spending, as changes within these months are not likely to be very affected by market share.



# Online shopping is much higher this year



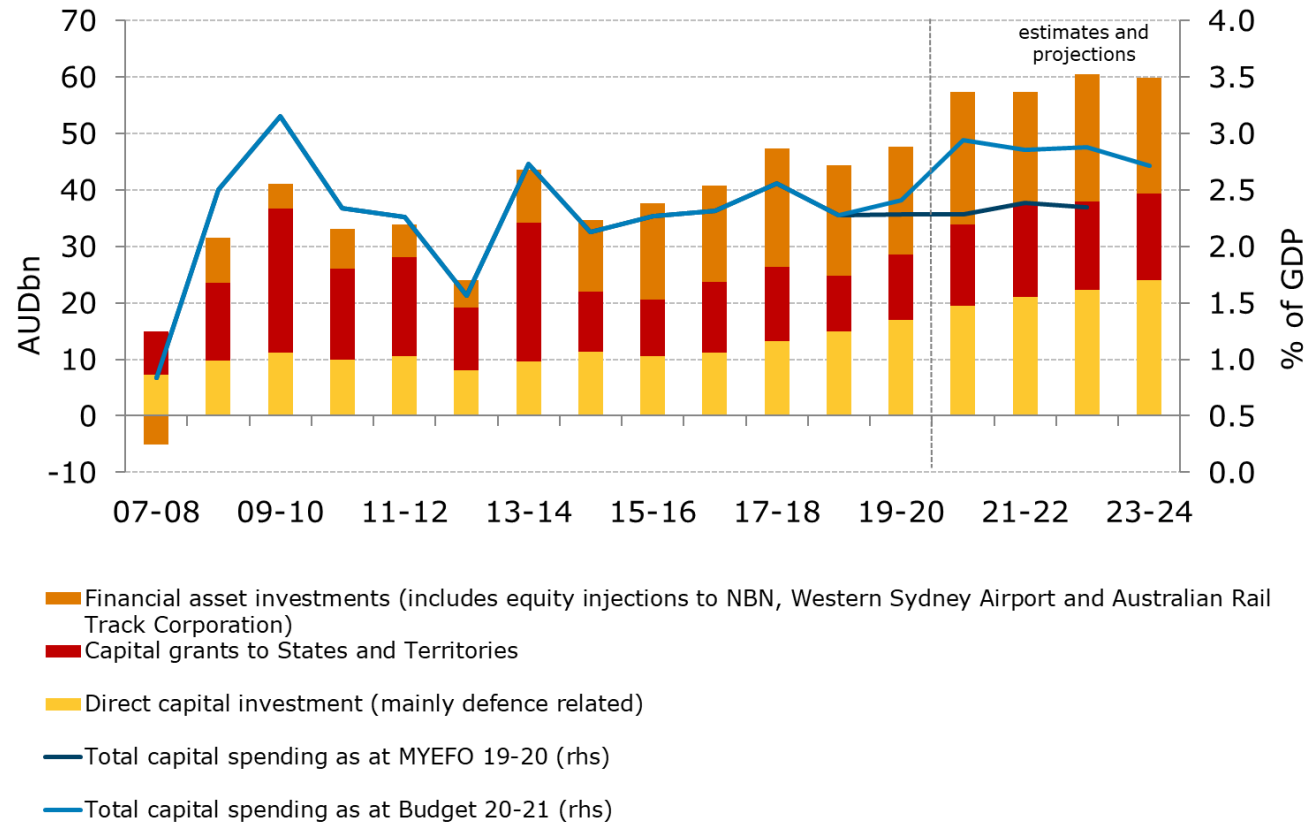
## Online shopping, % of shopping spending



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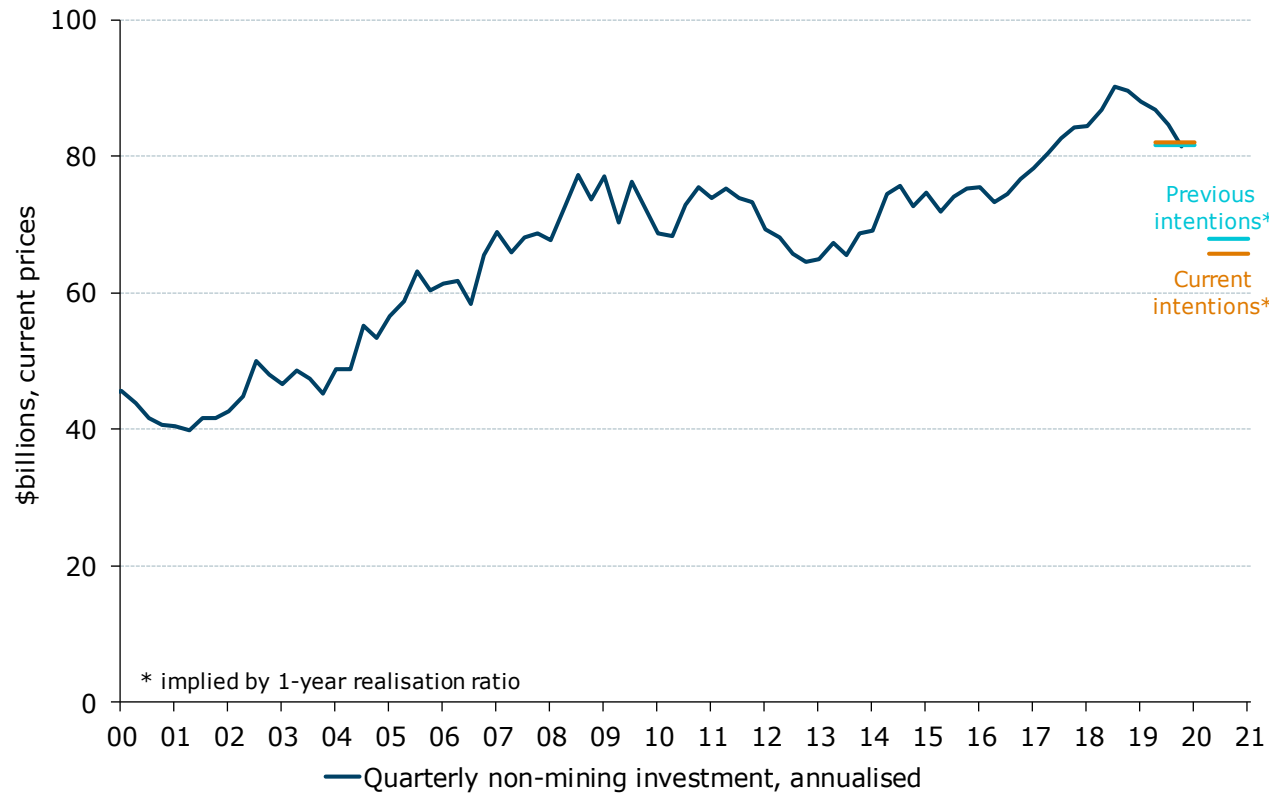
# The Government's capital spending has been increased, but not dramatically

## Federal Government capital spending



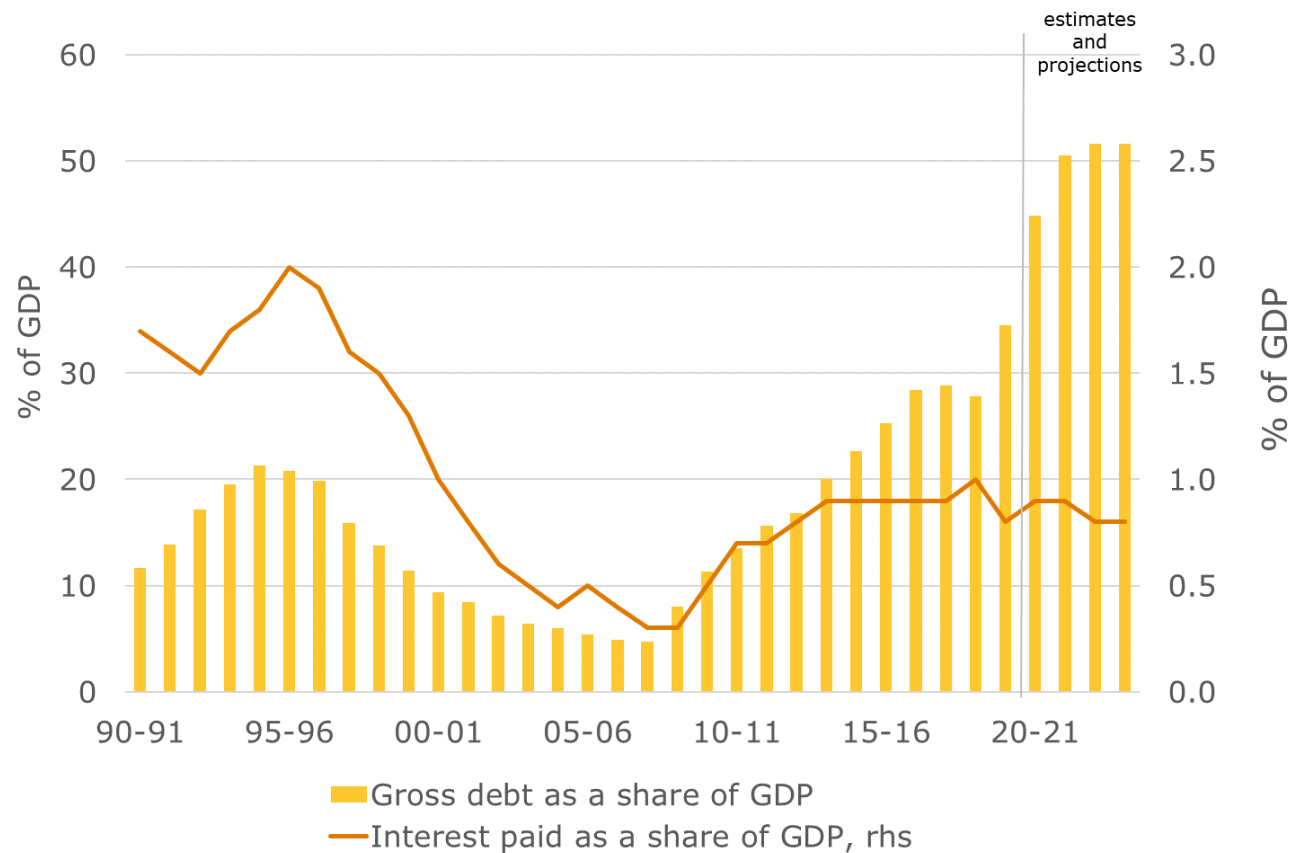
# Businesses are reducing investment

## Non-mining capex plans



Despite the largest budget deficit in post-war history, interest costs are expected to remain less than 1% of GDP

### Gross debt and interest costs





## Engineering a recovery

- As the acute phase of COVID-19 passes but the economy still reels, the Government has pushed fiscal conservatism aside.
- Budget 2020-21 is about trying to replacing very expensive public with private spending, using what it hopes are effective fiscal multipliers.
- The Budget includes tax breaks and wage subsidies for employers willing to hire young workers and apprentices.
- Over this year and next, AUD16bn of business tax deductions and offsets are planned while households will be encouraged to open their wallets, with \$23.8bn personal income tax cuts.
- The 2020-21 deficit is now expected to rise sharply to an estimated AUD214bn (from the July estimate of AUD185bn) and net debt is projected to rise to 44% of GDP in mid-2024, from 25% of GDP at 30 June.
- Our main concern is that the phasing from public to private spending will be lumpy, with the fiscal cliff still substantial in the current quarter. Business spending, no matter how encouraged, cannot fill the gap left by the fading JobKeeper and the completed “boosting cash flow for employers” measures.
- But there are many moving parts to this COVID-19 economy. Given all the pluses and minuses, ANZ Research is comfortable with its current GDP forecasts, albeit with a different possible mix.

# What was in the Budget?



Easing	Building	Developing
<b>Income tax</b> <p>Tax cuts and an extended low-middle income tax offset will reduce tax by 21% (\$1,060) for \$40k earners and 3.8% (\$2,565) for 200k earners.</p>	<b>Infrastructure</b> <p>\$14bn in new and accelerated infrastructure projects over the next four years. Includes \$3 billion towards shovel-ready projects (additional to \$2m announced in May 2020).</p>	<b>Health</b> <p>\$4.9bn for pandemic-related health funding. Includes \$1.7bn to secure access to 84.8m doses of potential vaccines developed by Oxford and UQ. \$148m in additional mental health funding.</p>
<b>Business tax</b> <p>Businesses with turnover up to \$5bn can deduct the full cost of eligible depreciable assets of any value in the year they are installed. These businesses can also offset losses on previous profits to generate refunds in 2020-21 and 2021-22.</p>	<b>Housing</b> <p>10,000 additional first home buyers can access the First Home Loan Deposit Scheme (reducing minimum deposit to 5%). \$1bn funding to National Housing Finance and Investment Corporation to increase bond issuance.</p>	<b>Technology</b> <p>\$4.5bn additional investment in NBN Co. \$29.2m for the rollout of the 5G Network. Streamline and digitization of a wide range of regulatory processes.</p>
<b>Wages</b> <p>Apprenticeship wage subsidy of 50%, estimated to cost \$409.4m in 2020-21 and \$821.6m in 2021-22. \$200 wage subsidies on eligible workers aged 16-29, \$100 per week wage subsidies on eligible 30-35 year old workers.</p>	<b>Education</b> <p>Employer-provided retraining activities are exempt from 47% fringe benefit tax. \$1bn JobTrainer fund for 340,700 free or low-free training places.</p>	<b>Environment</b> <p>\$270 million Murray-Darling Communities Investment Package. \$249.6m over four years to modernise recycling infrastructure, reduce waste and recycle more within Australia.</p>

# Who was (and wasn't) in the Budget?



Life stages	Socioeconomic groups
<b>Young Australians</b> <p>Wage subsidies for eligible workers under 36, JobMaker funding for apprentices and the extension of the first home buyer deposit scheme helps young workers. (although other housing supports, which keep prices resilient, somewhat offset this).</p>	<b>Women</b> <p>\$240m Women's Economic Security Package, including \$50m Leadership program grants and sexual harassment council funding. \$36m to expend the Boosting Female Founders initiative. \$25m to assist 500 women through STEM industry cadetships.</p> <p>STEM package is equivalent to 20% of expected cost of apprentice wage subsidies in 2020-21.</p> <p>No large scale measures targeted at recovering women's participation in the workforce.</p>
<b>Parents</b> <p>Extension of targeted funding for Victorian child care services to January 2021.</p> <p>No ongoing child care measures or changes to family tax benefits.</p>	<b>Regional Australians</b> <p>\$250m Regional Tourism Recovery package. \$100m Regional Recovery partnerships package. \$50.3m to expand the Rural Health Multidisciplinary Training Program.</p>
<b>Retirees</b> <p>Two additional Economic Support Payments of \$250.</p>	<b>Vulnerable Australians</b> <p>Two additional Economic Support Payments of \$250.</p> <p>No extension to JobSeeker coronavirus supplement past 31 Dec 2021 (so far).</p> <p>No permanent additions to JobSeeker, but Gov't has flagged this may come later.</p>

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[4 August 2020]

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