

Australian Government

Contribution of social assistance benefits to household income growth



AUSTRALIA'S BUDGET: FRYDENBERG'S SUGAR HIT

Agenda

- The budget numbers and policies
- Economic impacts
- Market impacts
- Political impacts
- Investment Outlook



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The budget numbers and policies:

Big deficits, small impact

- \$214bn deficit halved in 2021/22 so actually austerity
- Policies (see table)

Major policy initiatives in Budget 2020

AUDbn	'20/21	4 yrs	Comment
Spending measures - Expenses			
JobKeeper Payment extension	15.6	15.6	Announced in August, modified and extended to end March 2021.
Infrastructure Investment - states and territories	0.7	6.7	'Use it or lose it' funding for state and local governments.
Infrastructure Investment - road and safety upgrades	1.0	2.0	Small scale road safety projects to provide short-term stimulus.
Infrastructure Investment - local roads and community	0.5	1.0	Supporting local councils in maintaining social infrastructure.
Infrastructure Investment - National Water Grid	0.0	1.0	Grant funding for priority water investments that support output.
JobMaker - Hiring Credit	0.9	4.0	Incentivising businesses to hire young job seekers aged 16-35.
JobMaker - Boosting Apprenticeships wage subsidy	0.4	1.2	50% wage subsidy for commencing apprentices and trainees.
JobMaker - Research Package	1.0	1.1	Support investment in nationally significant research projects.
JobMaker - Modern Manufacturing Strategy	0.0	1.5	Aiming to achieve scale, competitiveness in manuf'g sector.
Further economic payments	2.5	2.6	Two \$250 economic support payments to welfare recipients.
Ageing and Aged Care	0.7	2.0	23,000 additional home care packages, improving transparency.
Access to COVID-19 vaccines and consumables	1.2	1.9	Committing to supply and production agreements.
Healthcare - hospitals and Medicare access	2.1	2.1	Tele-health and mental health services.
Total (including other)	34.2	71.3	
Spending measures - Revenue (i.e. tax relief)			
Temporary full expensing to support investment and jobs	1.5	26.7	Accelerated depreciation for 99% of businesses.
Bringing forward Personal Income Tax Plan, retaining LMITO	6.9	17.8	Stage 2 plan brought forward to July 2020.
Temporary loss carry-back to support cash flow	0.0	4.9	Tax relief generating refund for profits back to 2018-19.
Migration Program - 2020-21 planning levels	0.0	0.4	Increasing Family Stream places in 2020-21, reducing receipts.
R&D Tax Incentive - supporting Australia's economic recovery	0.3	2.0	Offset for small and large businesses applying July 2021.
Total (including other)	8.7	51.9	



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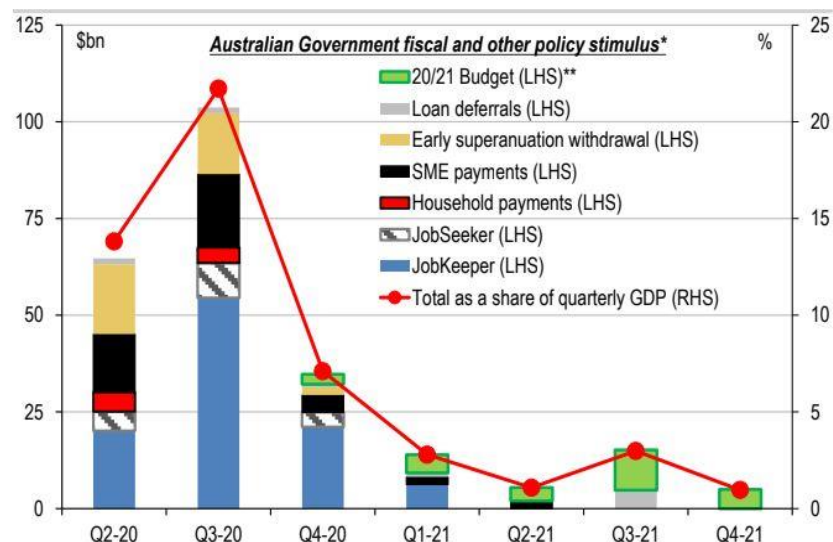


The budget numbers and policies:

Big deficits, small impact

- Majority of 20/21 already spent

Figure 16: ... The fiscal cliff in Q4-20 is still very large



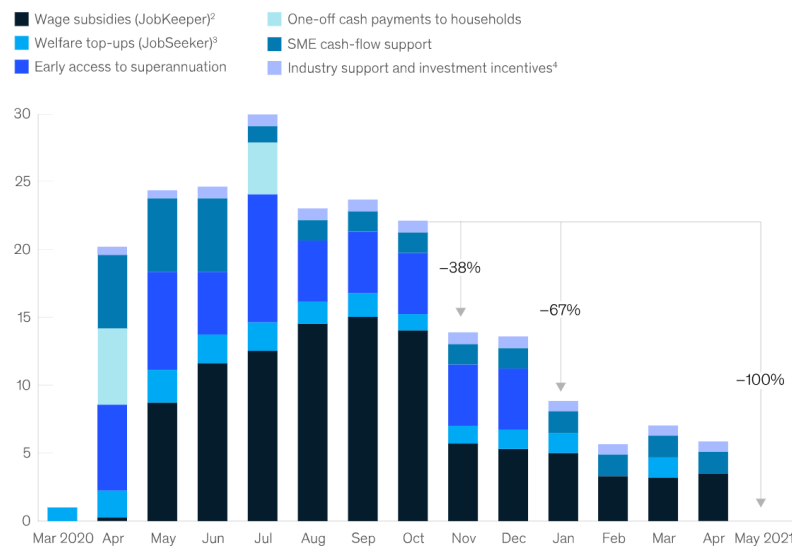
* UBS estimate includes specifically available Australian Government policies only - and does not include additional estimated ~\$50bn of fiscal stimulus from State Governments ** Only includes selected policies announced in the 20/21 Budget including: wage subsidies, cash handouts, tax cuts and loss carry back

Source: Australian Government, UBS

- JobKeeper smash

Phases of stimulus withdrawal will change the distribution of the economic shock.

Monthly expenditure on COVID-19 relief,¹ AU \$, billions



¹Major federal announcements, as of August 7, 2020.

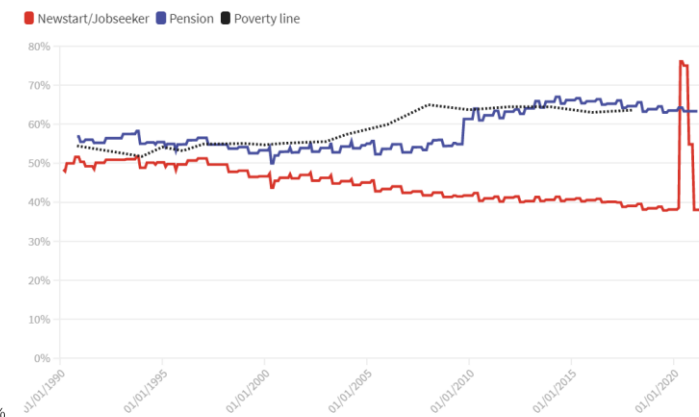
²Includes JobSeeker initial package and extension and reduced deeming rates.

³Includes JobKeeper initial package and extensions as at August 7 2020 as well as apprentice/trainee wage subsidies. The \$15.6b JobKeeper extension announced August 7, 2020 has been phased in line with Treasury estimates. It assumes \$4.5b will be spent from August to September 2020, with the remaining \$11.1b spent from October 2020 to April 2021 (holding the number of firms receiving JobKeeper constant over this period).

⁴Includes business investment incentive of ~AU \$4 billion and direct industry support of ~AU \$7 billion, and increase in instant asset write-off.

- JobSeeker smash

Newstart/Jobseeker, pension and poverty line as a percentage of minimum wage, 1990-2021.



Source: Author's calculations, minimum wage data from fwc.gov.au, Bray (2013). Unemployment payment and pension for single adult. Shown relative to net income when receiving minimum wage, with tax and medicare levy deducted and super contributions added. Rental assistance not included. Poverty line is half of median equivalised household income for non self-employed. Future payments are estimates.



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Economic impact:

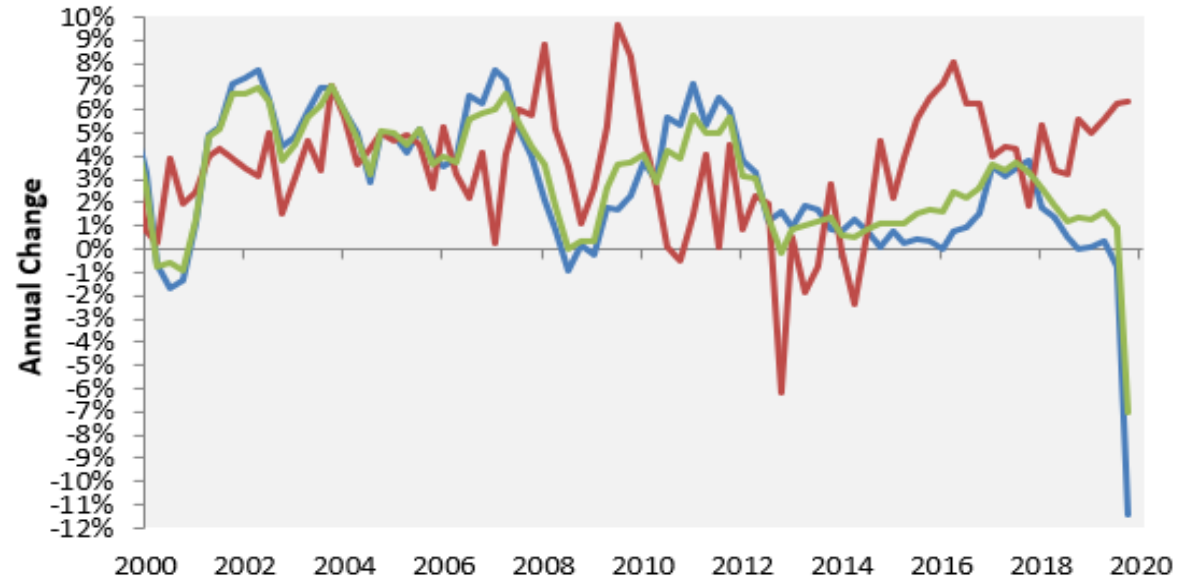
Demand deficit!

- Budget does little directly addressing demand deficit with risks it will make it a lot worse:
 1. Fiscal cliff and rising unemployment
 2. Mass immigration crash
 3. No immediate income boost
 4. Paradox of thrift, stagnant and falling property plus deleveraging
 5. Oversupply in everything meaning business to sweat existing assets and use investment incentives to reduce headcount
 6. JobMaker likewise
 7. Depreciation a risk free rate discount but cash at near zero
 8. Hurdle rates

Australian Final Demand

Source: Australian Bureau of Statistics

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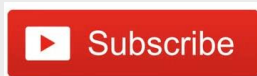
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Markets impact: Aussie, Aussie, Aussie!

- Leaves demand entirely to the RBA
- Easing to include rate cut, more QE, perhaps state bonds for demand
- Bizarro raft of broker GDP upgrades may slow even more but it will come
- Bond bull, budget likely to miss all targets
- House prices to lift in peripheral capitals but not SE so not much wealth effect
- Australian banks to turn Japanese as margins eaten away
- Australia stocks to suffer from weak demand
- Australian dollar should weaken on these settings but timing will be impacted by global factors.



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Political impacts

Ideology revives Labor

- Supply-side budget without precedent
- Not Keynesian. Not even Austrian. Whacko trickle-down gamble
- Weak recovery, especially wages, deals Labour into 2021/22 election
- Sets up possible major reversal of budget policies a'la Abbott 2014
- Morrison said would do more of the same!



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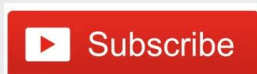
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Investment Outlook

- Budget: Supply side response to a demand side problem
- Tax cuts in Australia, tax hikes in the US
- Bond rates in the belly of the curve – may extend out later
- 3Q reporting season over next few weeks – extremely important read into outlook



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Viewer question of the week:

Do you think this budget is setting Australia up for long term success?

Drop your answers in the comments



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Coming up

Nucleus Investment Insights : Steve Keen [Nucleus Wealth Live Webinar page](#)

this
Thursday 15th October



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