more give, less take

nab

Federal Budget 2015

What the Federal Budget means for Infrastructure.

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Federal Budget overview

Our economists' view

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The focus of the 2015 Federal Budget is very different from last year. Given the political problems of last year's budget, the focus has been on attempting to make this Budget as politically saleable as possible. Also, unlike last year, the 2015 Budget is relatively neutral in its impact on the broader economy. Essentially, new expenditures have been broadly offset by savings.

More than any budget in recent memory, most of the key changes were pre-announced/leaked – again to emphasise the 'no surprises' focus. Consequently, the key spends include a $5.5bn small business package (really micro business, ie turnover of less than $2m per annum), including tax cuts and, more importantly, a 5% tax discount (up to $1,000) to other tax payments, immediate write-offs of new assets up to $20,000, tax advantages for crowd funding and GST exemptions to SME electronic purchases. Elsewhere there is $3.5bn (over five years) spending on childcare incentives (linked to stalled family tax benefits savings); a new infrastructure fund for Northern Australia ($800m); extra incentives for employment of older Australians; drought spending ($330m); border/terrorism spend ($500m); a payment to offset Western Australia's GST issues ($500m); extra spending on the Pharmaceutical Benefit Scheme ($1.6bn) and the reversal of last year's doctor rebate savings.

The savings were equally well flagged. These include a new law on cross-border profit shifting: GST on intangible/services (Netflix tax); pension savings by lowering the non-home asset threshold to $800,000 ($2.4bn); tightening of the paid parental schemes (anti-double dipping between private and public schemes); the withdrawal of Melbourne East West Link money ($1.5bn); and further public service efficiency dividends.

As set out in the section on the medium term fiscal outlook, the Budget really is a combination of redirected policy spending broadly offset by substantial increases in revenue to GDP – bracket creep. Outlays broadly grow in line with GDP, which is better than the previous upward trend. Also, the economic impact of the Budget on the economy is relatively neutral.

Broadly, the Government's forecasts are very similar to NAB's, so we see the projections as credible. Of course to the extent we have all overestimated growth – especially in a low wage growth and falling commodity price world – the Budget remains open to the disappointments (especially on the revenue line) that we have seen in recent years. But with a credible set of forecasts (and a deliberately conservative iron ore price assumption – Treasury's $US48 vis-à-vis NAB's $US60 per tonne) the rating agencies should be relatively satisfied. Equally we would not expect the very negative reaction of consumers to this year's Budget. That said, we would not really expect much of a kick to business confidence, outside of micro business.

Of course the Budget is not the complete current fiscal story. There is still the Tax White Paper to come. The Budget had little on big tax and superannuation questions. Also, there is still the debate about what happens to Government's removal of $80bn in state funding for health and education in the out years. And finally, despite the Government's best efforts, what happens in the ensuing political process is unknowable.

Fiscal Outcome

The underlying cash deficit for 2014-15 is estimated at $41.1bn and $35bn in 2015-16 (or 2.1% of GDP and below market expectations – but near NAB's). The projected deficit then moves down to $14.4bn in 2017-18 (0.8% of GDP) with an eventual return to surplus in 2019-20. Basically the reduction in the deficit is driven by returning revenues, which rise from 23.9% of GDP in 2014-15 to 25.7% in 2017-18 (accruals basis). Outlays move from 26.1% to 26% of GDP in the same period.

Economic Outlook

As noted above, there is little fundamental difference between Treasury's and NAB's economic outlook. At the margin, we are slightly less optimistic in the near term (NAB 2.3% Treasury 2.5% in 2014-15) but slightly more optimistic in 2015-16 (NAB 2.9% Treasury 2.75%). An interesting difference here is our slightly more pessimistic view on business investment. That said, the RBA is more pessimistic on 2015-16 growth than either Treasury or NAB. At the margin, Treasury has a slightly higher unemployment rate in year average terms in 2015-16 (NAB 6.25% Treasury 6.5%). Finally, on the critical nominal GDP forecasts (for Budget deficit forecasting) there is little difference between NAB and the Treasury (both around 1.5% and 3.5% in the next financial year).

Financial Markets

There was modest but nonetheless positive market reaction to the Budget. The $A has pushed 30bps higher towards 0.7990, although it was trading higher before the Budget's release. Bond futures improved 2-3 bps (ie yields lower), presumably because the debt program is a little less than expected and the major ratings agencies have been quick to say the Budget doesn't pose any immediate threat to the AAA rating.

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Key initiatives:

- Establishment of a $5bn Northern Australia Infrastructure Facility to provide concessional loans for major infrastructure projects such as ports, railways, pipelines and electricity generation;
- $101.3m to upgrade roads in northern Australia to improve the efficiency of cattle supply chains;
- A one off grant of $499.1m in 2015-16 to Western Australia for nine infrastructure projects, to support Western Australia as its GST share declines;
- Removal of $3bn in funding for East-West Link from the budget, including the $1.5bn already paid to the Victorian government. This follows the Victorian government's cancellation of the project;
- According to Infrastructure Partnerships Australia, federal infrastructure funding will see $28.4bn in investment across the forward estimates, including $6.8bn in 2015-16. This places Commonwealth funding at an historically high average of around 1.47% of general government expenditure over the five years from 2014-15;
- There will be a scoping study on options around the future structure and ownership of the Australian Rail Track Corporation ahead of the 2016 Budget.

NAB's view:

In contrast to last year, infrastructure received little attention in this year's budget. Roads remain the main priority and there is little in the way of support for urban and regional public transport and only limited support for freight rail. Of the almost $20bn in Commonwealth grants to the states for transport infrastructure over the five years to 2018-19, over 95% is directed to road projects.

The $5bn Northern Australia Infrastructure Facility will provide concessional loans for major infrastructure projects such as ports, railways, pipelines and electricity generation in northern Australia. This is intended to underpin further agricultural development in northern Australia.

However, forecast spending on the measure over the forward estimates period is only anticipated to be $800m, suggesting that it will take a number of years for the funding to be allocated. Further, with interest rates already at record lows, it is unclear how much additional investment the measure will create.

Western Australia enjoys a $499.1m one-off grant in 2015-16 to fund nine infrastructure projects. However, the objective of this grant is to support Western Australia through a further cut in its GST relativity in 2015-16.

The 2015 Budget has removed initial allocated funding to the previous Victorian Government in 2014 for the East West Link. The 2014 Budget provided for $1.5bn for the western section of East-West Link, in addition to $1.5bn already provided for the eastern section of East-West Link. However, a change of government in Victoria in November 2014 led to the cancellation of the project in its entirety. The 2015 Budget removes this funding from the forward estimates, including the return of $1.5bn already paid to Victoria.

Victoria's share of transport investment is now only 7.7% of the total Commonwealth funding over the five years to 2020, despite having around 25% of Australia's total population. In contrast, New South Wales enjoys 38.8% of funding and Queensland 35.8%. If the $3bn in funding earmarked for East-West Link were included in the forward estimates, Victoria's share would be just under 20%. While Victoria's small area and concentrated population makes delivery of some regional transport infrastructure less expensive, alleviating Melbourne's congestion issues is likely to require considerable investment.

One bright spot for Victoria is the commitment in the Budget to "consider investing in other major projects of national significance in Victoria should the Victorian government come forward with options".

Industry comment:

The Business Council of Australia (BCA) is supportive of these initiatives, noting that they build on the government's previous asset recycling program and "will be a much needed boost to productivity and competitiveness". The BCA also noted that this "will benefit communities across Australia's north".

According to Infrastructure Partnerships Australia (IPA), "the 2015 Federal Budget is good for infrastructure, because it maintains the already historically high level of committed funding, despite the Senate's failure to pass savings measures."

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