

# 2020 FEDERAL BUDGET

## What it means for Infrastructure



more  
than  
money



### Group Economics overview of the Budget

As expected, this is one of the most stimulatory budgets we have ever seen.

Broadly it is largely as expected. A key decision has been to backdate the Phase 2 tax cuts (worth \$17.8bn over four years). The back dating of Phase 2 cuts is important as it helps fill the gap to consumers incomes from the reduction of JobKeeper and JobSeeker payments. It has also led us to revise up our near-term GDP forecasts and reduce the level of unemployment at the same horizon.

The biggest item in the budget was the instant asset write off for firms with turnover of less than \$5bn (covering around 99% of businesses) - worth \$26.7bn. It is very much aimed at encouraging business investment. Further in keeping with the tone of moving from “support to survival”, extra money has been given by way of pay incentives to employ people, especially for under 35 year olds who were previously unemployed (\$4bn). Also announced were wage subsidies for new apprentices (\$1.2bn).

A surprise was not bringing forward the timing of “Stage 3” tax cuts (which the Opposition opposes) or permanently increasing the JobSeeker payment.

The expenditure items include bringing forward infrastructure spending by providing extra money to the States (\$6.7bn) along with Commonwealth road infrastructure of \$2bn. There was also a carry back tax provision (of around \$4.9bn). There was extra money for manufacturing support (\$1.5bn) and higher education (\$0.9bn). Further, as previously announced, the laws on Responsible lending have been scrapped in an attempt to boost credit for SMEs.

The size of the total fiscal package suggests a policy stimulus this year of around 7% of GDP. The implied fiscal tightening that follows as JobKeeper drops out sees the Budget position improving by around \$100bn - or a tightening of nearly 5%. At a time when the economy is expected to grow by 4.8%. That in our view is a big stretch - either for the pace of Budget repair and growth.

In looking at the near-term deterioration in the Budget nearly all the work is done on the expense side - as is the subsequent repair process. Albeit, the structural Budget deficit is - even on these charitable assumptions - still likely to be around 6% in deficit. Therefore, repairing the budget will be a protracted process, taking well over 5 years.

Overall, we have no problem with the focus on getting the economy going using fiscal stimulus. Structural reform would have also been useful but has not really been attempted apart from the tax cuts. We agree the issue of future debt is of little near term concern. The economy needs all the help it can get from fiscal policy. While the RBA may fractionally lower rates, that would have marginal impacts at present. The cost of credit is not the issue - rather it is the lack of demand for credit.

Fundamentally we are much more worried about the outlook than the forecasts published by the Treasury. We see GDP falling by around -2.1% in 2020/21 (while the Treasury is at -1.5%). For 2021/22 we have around 3.8% but the Treasury has 4.7%. While we both see unemployment peaking at around 8% (Treasury in December 2020, NAB March 2021) the Treasury has unemployment falling to around 6½% in 2021/22 while NAB is nearer 7%. We both have unemployment of around 6% in 2022/23. Generally, we are weaker across all private sector components, while we are stronger on the outlook for government spending. We also expect a slower bounce back in exports.

## Infrastructure & Construction

Since the end of the mining construction boom, public infrastructure has become an important support for the Australian economy, particularly in NSW and Victoria, driven by rapid population growth in the capital cities. Although infrastructure spending is already at a high level, there is a large backlog of transport projects announced by state governments that need a Commonwealth contribution to proceed.

### What did business want?

With the uncertain times due to COVID 19, industry lobby groups such as Infrastructure Partnerships Australia and the Australian Constructors Association have both expressed the need for further reforms and called for further collaboration between different levels of government and industry. Master Builders Australia has called for a dedicated Ministry of Housing and Construction to better coordinate planning, procurements, regulations etc.

Besides calls for general reform in the construction industry, there is a consensus among the industry groups to fast track existing spending commitments from the 10-year \$100 billion total announced by the Federal government last year. On top of direct investment in infrastructure, Master Builders Australia has called for the extension of the Homebuilder program with expanded eligibility and relaxed price and income caps to further stimulate housing construction.

### What did the Budget deliver?

On the back of \$100b announced last year, this year the government has announced around \$11b in infrastructure spending. Around \$8b are allocated or have been brought forward for state specific projects.

(\$m)			
State/Territory	New	Brought Forward	Total
ACT	\$ 155.3		\$ 156.3
NSW	\$ 2,579.2		\$ 2,579.2
NT	\$ 189.5		\$ 189.5
QLD	\$ 1,296.8	\$ 14.2	\$ 1,311.0
SA	\$ 625.2	\$ 20.3	\$ 645.5
TAS	\$ 351.0	\$ 15.0	\$ 366.0
VIC	\$ 1,119.2	\$ 610.0	\$ 1,729.2
WA	\$ 1,185.8	\$ 161.4	\$ 1,347.2
Total	\$ 7,502.0	\$ 820.9	\$ 8,323.9

\*Excludes measures announced in the July Economic and Fiscal update.

\*\* WA figure includes Perth City Deal.

**New South Wales** is forecast to receive an additional \$2.6b on top of \$120m funding for the Pinch Points program announced in the July Economic and Fiscal update. New funding includes \$603m for the New England Highway - Singleton Bypass and Bolivia Hill Upgrade, \$591.7m for the Newell Highway Upgrade, \$360m for the Newcastle Inner City Bypass, \$120 for Prospect Highway Upgrade, \$94m for the Heathcote Road Upgrade, \$63.5m for the Dunheved Road Upgrade, \$60m for the M1 North Smart Motorway and \$46.4m for the Mulgoa Road Upgrade. A further \$120m was announced non-specifically for grade separating road interfaces.

The Infrastructure Investment Program - New South Wales infrastructure investments expense line shows \$1.98b of additional funding over the budget and forward estimates period.

**Victoria** is forecast to receive an additional \$1.1b and another \$610m in funding brought forward. Out of the new funding, \$320m is marked for the Shepparton Rail Line Upgrade, \$292m for Barwon Heads Road, \$208m for the Warrnambool Rail Upgrade Stage 2, \$104m for the McKoy Street - Hume Freeway Intersection Upgrade, \$84.5m for Hall Road, \$31m for Narre Warren North Road, \$30m for the Western Rail Plan, \$27.2m for the Western Port Highway and \$22.5m for South Road. The \$610m brought

forward are \$605m for the South Geelong to Waurin Ponds Rail Upgrade Stages 2 and 3 and \$5m for the Outer Metropolitan Ring / E6 Corridor Preservation.

The Infrastructure Investment Program - Victorian Infrastructure investments expense line shows \$1.69b of additional funding over the budget and forward estimates period.

**Queensland** is forecast to receive an additional \$1.1b, including \$750m for the Coomera Connector Stage 1, \$201.2m for the Bruce Highway, \$112.0m for the Centenary Bridge Upgrade, \$76m for the Riverway Drive Stage 2, \$50m for the Beams Road Open Level Crossing Upgrade, \$42.4m for the Mount Lindesay Highway Upgrade, \$38m for the Cooktown to Weipa Corridor Upgrade, \$17.2m for the Cairns to Northern Territory Border Upgrade, \$10m for the M1 Pacific Motorway Upgrade with \$10m brought forward for the Port of Brisbane planning and \$4.2m brought forward for the Brisbane to Gold Coast Faster Rail Business Case.

The Infrastructure Investment Program - Queensland infrastructure investments expense line shows \$1.05b of additional funding over the budget and forward estimates period.

**Western Australia** is forecast to receive an additional \$1.1b, including \$227.1m for Metronet - High Capacity Signalling and Morley-Ellenbrook Line, \$87.5m for the Reid Highway Interchanges, \$80m for the Wheatbelt Secondary Freight Network, \$75m for the Canning Bridge Bus Interchange, \$70m for the Roe Highway Widening and Abernethy Road Upgrade, \$70m for the Newman to Katherine Corridor Upgrade, \$56m for the Karratha to Tom Price Corridor Upgrade, \$48.6m for the Kwinana and Mitchell Freeway Improvements, \$45.0 million for the Stirling Bus Interchange, \$41.6m for the Port Augusta to Perth Corridor, \$40m for the Freight Vehicle Productivity Improvements Program, \$17.5m for the Bus Lane Program - Stirling and Canning Highways. A further \$161.4m is brought forward for existing projects, including \$115.8m for the Roe Highway-Great Eastern Highway Bypass and Abernethy Road-Great Eastern Highway Bypass Interchanges, \$24m for the Fremantle Traffic Bridge - Swan River Crossing and \$21.6m for the Wheatbelt Secondary Freight Network. On top of these, an additional \$327.5m over 11 years have been announced for the Perth City Deal.

The Infrastructure Investment Program - Western Australia infrastructure investments expense line shows \$1.05b of additional funding over the budget and forward estimates period.

**South Australia** is forecast to receive an additional \$625m, including \$200m for the Hahndorf Township Improvements and Access Upgrade, \$136m for the Princes Highway Corridor Improvements, \$136m for the Main South Road Duplication Stage 2, \$100m for the Strzelecki Track Upgrade, \$28m for the South Eastern Freeway Safety Upgrade, \$13.2m for the Goodwood and Torrens Junctions and \$12m for the Victor Harbor Road Upgrade. \$20.3m have been brought forward to accelerate the Eyre Peninsula Network. The Infrastructure Investment Program – South Australia infrastructure investments expense line shows \$ 512.5m of additional funding over the budget and forward estimates period.

**Tasmania** will see an additional \$150m for the Hobart to Sorell Corridor, \$72m for the Tasman Roads Package, \$65m for the Tasman Bridge Upgrade, \$52m for the Midland Highway Upgrade, \$12.0 million for Freight Bridge Upgrades and \$15.0 million brought forward to accelerate Hobart Airport to Sorell Southern Bypass.

The **Northern Territory** will see an additional \$120m for the Carpentaria Highway Upgrade, \$ 46.6m for the Northern Territory National Network Highway Upgrades and \$22.9m for the Stuart Highway Upgrade.

The **ACT** will see an additional \$87.5m for the Molonglo River Bridge, \$50m for the Canberra - Southwest Corridor Upgrade, \$15.3m for the Monaro Highway Upgrade and \$2.5m for the Parkes Way Upgrade planning.

A further \$3b have been announced and committed over 2 years for two nation-wide infrastructure programs. The 'Local Roads and Community Infrastructure Program' will be extend with another \$1b over 2 years for local councils to maintain and deliver local infrastructure. Another program, the 'Infrastructure Investment - road safety and upgrades project' aims to provide \$2b for shovel-ready projects on a first-come-first-serve basis where states ready to start will get priority.

## Construction

The Construction sector was a winner in this budget, with measures to stimulate building across the country in a bid to create jobs and increase cashflows right now. This includes the \$688m HomeBuilder scheme, which provides eligible owner-occupiers with a grant of \$25,000 to renovate or build new homes.

The First Home Loan Deposit Scheme will also be expanded to give an additional 10,000 places to potential first home buyers who will be able to purchase a new home sooner under the extension. Builders will receive extra benefits from the expansion as part of the conditions of the First Home Loan Deposit Scheme is to purchase new dwellings.

The JobMaker hiring credit, slated for \$4b over 3 years coupled with a boost to the Supporting Apprentices and Trainees subsidy, slated for \$1.2b over 4 years, will be of welcomed benefit for the construction industry. With new and old trainees' wages subsidised to 50% (capped at \$7000 per quarter) till September 2020, coupled with an additional \$200 per new employee aged between 16 to 29 or \$100 for those between 30 to 35, the construction industry will be able to expand quickly to meet expansion in the construction sector.

### **How did business react?**

Infrastructure Partnerships Australia has welcomed the Budget noting that "The Federal Government has moved decisively in this Budget, lifting total infrastructure funding to \$48.8 billion over the forward estimates, a surge of \$19.3 billion from the four-year spend set out last year". IPA has also applauded the government on taking its advice to "go hard on funding for projects that can be deployed to market quickly". Coupled with "The Federal Government's initiative to provide funding to state and local governments on a 'use it or lose it' basis", Infrastructure Partnerships Australia's Chief Executive Adrian Dwyer believes "it will accelerate project delivery and ensure construction boots hit the ground faster."

Graham Wolfe, Managing Director of the Housing Industry Association has welcomed both the increase in the number of First Home Loan Deposit Scheme as well as the injection of \$1.2b into the Supporting Apprentices and Trainees wage subsidy stating that "Tonight's budget has given both first home buyers and more than one million workers in the residential building industry the incentive and confidence needed to continue to navigate through these challenging times."

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