2021-22 FEDERAL BUDGET

What does it mean for Infrastructure & Construction?

more than money nab

Group Economics overview of the Budget

The Treasurer wasn't kidding when he said budget repair has been put on hold until unemployment was below 5%, with a raft of new spending measures offsetting the cyclical improvements in the budget due to a better than expected economic outcome. Overall, the momentum of the recovery has more than offset the pullback in stimulus, but this budget aims to provide further support.

In terms of spending the largest item was the aged care package - at around $17.7 billion over the forward estimates. But there were other big spends in the areas of Infrastructure ($15 billion) and NDIS ($13.2 billion). The Low and Middle-Income tax offset was extended a year ($7.8 billion) and the Investment Asset Write Off also was extended. Other areas of focus included childcare, home ownership support and a number of tweaks to superannuation to ensure greater flexibility (as well as support for women).

Something of a surprise was relatively little to boost private sector investment which will be critical to maintain the recovery's momentum. Also, there was not a lot of emphasis on public housing and no attempt to bring forward the third phase of tax cuts (which will be much cheaper than first thought given the better labour market outcomes forecast) or company tax changes. It is worth noting that the Budget does not include election spending which will either occur via an early Budget (the election must be called by May 2022) or via Government announcements.

Structurally the Budget is taking back only around 2% of GDP in policy stimulus - compared to a net 8% stimulus in 2019/20 and 2020/21. Clearly a structural surplus is a long way off. In looking at the near-term trends, the fiscal situation is once again driven by the expense side rather than revenue. Indeed, compared to MYEFO there is little change.

Overall, we have no problem with the focus on maintaining the support for economic growth, but we see the scope for more structural/productivity enhancing measures to have been included. Cutting red tape, tax changes and greater support for alternative energy environment would have been preferred. That said, as noted above, we are only getting a partial view of the likely budget outlook and much can and will probably change in the lead up to the election.

Fiscal Outcome

The underlying cash balance for 2020/21 is estimated at $161 billion (or around 8% of GDP), around $40 billion better than at MYEFO. While for 2021/22 a deficit of $107 billion is forecast (we had expected around $75 billion), after that progress is slow and by 2023/24 the deficit is still expected to be around $79.5 billion. A return to surplus looks many years away.

Economic Outlook

Both we and the Treasury see the economy continuing to recover over the next couple of years. In aggregate our outlook for real GDP sees a similar end point over the forward estimates but there are some underlying differences. We see a bigger boost to business investment in the near term and a more pronounced cycle in dwelling investment, while Treasury sees stronger consumption and a bigger contribution from net exports. On the labour market we are more optimistic with unemployment around 0.5ppt lower than the budget outlook by the end of the forecast horizon. That said, both sets of forecasts embody a weak outlook for wage growth, which will see soft inflationary pressure and the need for ongoing support from policy makers. Our forecasts are based on much the same assumptions for a reopening in borders next year and the possibility of further small outbreaks of the virus but no large-scale shutdowns.

Financial Markets

S&P maintained its negative outlook for Australia's AAA credit rating, noting that "risks remain tilted toward the downside". S&P has said before that a narrowing in the deficit towards 3% of GDP is more consistent with a AAA rating (not projected till 2024-25 in the budget).

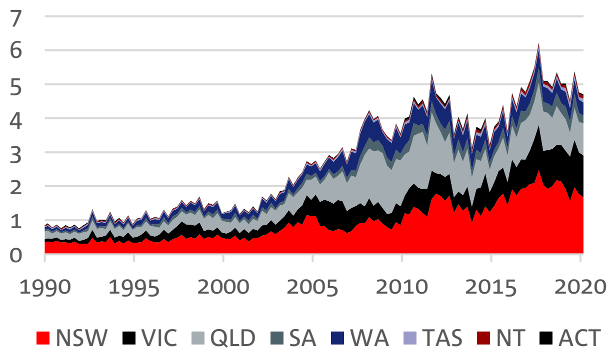
Infrastructure & Construction

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

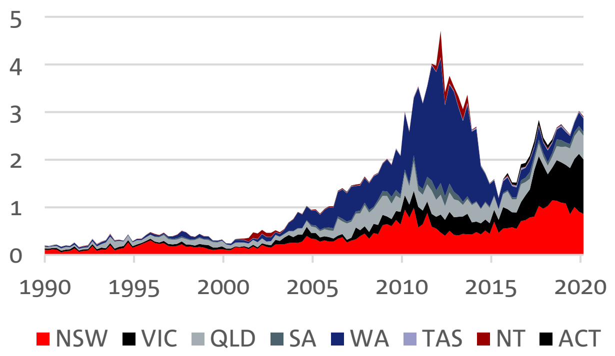
While infrastructure investment remains at a high level, ABS engineering construction surveys show that road spending has plateaued since 2018, while rail has continued to grow, driven largely by spending in Victoria.

Transport infrastructure is largely delivered by (or behalf of) state governments, although due to vertical fiscal imbalance (i.e. the Commonwealth raises most of the revenue) Commonwealth funding contributions are a key element of new projects.

Road engineering construction, $b quarterly (ABS)



Railway, bridge, harbour engineering construction, $b quarterly (ABS)



What did the Budget deliver?

The budget delivers an additional $15.2 billion in infrastructure spending over 10 years as part of its commitment to provide $110 billion in infrastructure spending over the next decade. It is important to note that the full phasing of this spending is not available beyond the five-year budget and forward estimates period. More detail by state is included below.

Victoria

The budget commits $3.0 billion for projects in Victoria, with the major projects being:

- Up to $2 billion for the Melbourne Intermodal Terminal, although funding and potential Commonwealth equity is yet to be fully determined. The proposal seeks equivalent funding from the Victorian Government.
- $380 million for Pakenham Roads Upgrade
- $250 million for Monash Roads Upgrade

New South Wales

The budget commits $3.3 billion for projects in New South Wales, with the major projects being:

- $2.0 billion for the Great Western Highway from Katoomba to Lithgow
- $500 million for the Princes Highway
- $229.4 million for the M12 Motorway

Queensland

The budget commits $1.6 billion for projects in Queensland, with the major projects being:

- $400 million for the Bruce Highway
- $400 million for the Inland Freight Route
- $240 million for the Cairns Western Arterial
- $178.1 million for Gold Coast light rail capacity improvement and $126.6 million for the light rail stage 3 extension
- $160 million for the Mooloolah River Interchange

Western Australia

There is $1.3 billion for Western Australian projects, including:

- $237.5 million for METRONET Hamilton St/Wharf St grade separations and $110m for the METRONET Byford extension
- $200 million for the Great Eastern Highway
- $160 million for agricultural supply chain improvements
- $112.5 million for the Reid Highway

South Australia

There is $3.2 billion for South Australian projects, including:

- $2.6 billion for the North-South Corridor
- $161.6 million for the Truro bypass
- $148 million for the Augusta Highway duplication

Tasmania

The budget commits a further $322.6 million for Tasmanian infrastructure projects, including $113.4 million for the Midland Highway.

The Territories

The Northern Territory has received $323.9 million, including $173.6 million for gas industry roads upgrades and $150 million for National Network highway upgrades.

The ACT has received $167.3 million, including $132.5 million for Canberra Light Rail stage 2A.

How did business react?

Infrastructure Partnerships Australia was pleased with additional funding, with CEO Adrian Dwyer commenting that: “The Federal Government has raised its high watermark of infrastructure funding in this year’s Budget ... The challenge now is getting dollars out the door and diggers in the dirt.”

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