

Monday, 28 March 2022

## Federal Budget Takes Centre stage

The Federal Budget is to be handed down tomorrow night and all eyes are firmly fixated on what the Morrison Government might unveil ahead of the upcoming election, which is expected to be held in May.

The big topic sitting front and centre leading into budget night is the cost of living. And crucially, how the government will ease the pressure on households. Households are grappling with higher prices at the shops, supermarkets and most notably, the petrol pump – unleaded petrol averaged 206.7 cents per litre over the week ending 27 March.

We expect that a cost-of-living package will be announced in the Budget to assist those in the community that are most vulnerable to the rising cost of living. However, there are few details on what exactly the package will look like. In pre-Budget remarks, the Treasurer has suggested any spending will be targeted, as the time for “large scale economy-wide emergency support is over”. The government will need to strike the right balance between addressing cost-of-living pressures, while ensuring any support does not exacerbate already rising inflationary pressures.

The government has kept most of its cards close to its chest and has held back on revealing the details on new policy spending. However, the Treasurer has flagged that spending will be funnelled towards “productivity enhancing investments”. Accordingly, we could see new spending weighted towards infrastructure investment, digital transformation, energy, upskilling the workforce, and growing Australia’s local manufacturing capability. There is also likely to be more spending on health, including the already announced \$2 billion measure to set up a mRNA vaccine facility in Victoria. The government is also likely to lift its defence spending alongside several developed economies, as the war in Ukraine illuminates growing geopolitical tensions in the Asia-pacific region.

On the opposite side of the ledger, we expect to see elevated commodity prices and the exceptionally strong performance of the Australian economy to translate into stronger revenues for the government. This will help improve the bottom line and fund new pre-election policy commitments, without worsening the budget deficit. Instead, we expect the Budget forecasts to show the deficit narrowing to around \$78bn for the 2021/22 fiscal year. It represents an improvement of \$21.5bn on the government’s December 2021 estimate in the Mid-Year Economic and Fiscal Outlook (MYEFO).

An improved budget position will also reflect a shift in the government’s fiscal strategy. The Treasurer has prefaced a tilt away from pandemic-era stimulus, towards normalising fiscal settings by first stabilising and then reducing debt as a share of GDP. It is expected that the budget deficit will decline modestly over the forward estimates. However, most of the improvement in the public debt position will be booked from an increase in GDP, rather than a sharp tightening in spending or an increase in taxes. That is, structural deficits are likely to remain an issue over the longer term.

While the Budget will take centre stage, there is a raft of local data due to be released throughout

the week. Retail sales data for February is expected to show a 1.5% monthly rise in spending. This is despite flooding in NSW and Queensland, which likely dragged on sales over the month.

We will also get an update on the housing market, with fresh reads on building approvals and housing finance for February, and dwelling price growth figures for March. Dwelling approvals are expected to have jumped 20.0% in February, partly unwinding an Omicron-induced slump in January. We anticipate housing finance expanded for a fourth consecutive month, increasing 2.5%, driven by robust growth in investor lending. Meanwhile, the recent softening in house price growth is expected to continue, as growing affordability pressures weigh on buyers. Still, we expect that dwelling prices rose by 0.3% in March, following an equivalent gain in February.

Finally, the Reserve Bank will release private-sector credit figures for February – providing an update on business and household credit growth as the economy continues to iron out any bumps caused by Omicron. We expect that credit expanded by 0.6% over the month, in line with the expansion in January.

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## Forecasts

| End Period:                  | 2022           |        |        |        | 2023   |        |        |
|------------------------------|----------------|--------|--------|--------|--------|--------|--------|
|                              | Close (25 Mar) | Q2 (f) | Q3 (f) | Q4 (f) | Q1 (f) | Q2 (f) | Q3 (f) |
| <b>Aust. Interest Rates:</b> |                |        |        |        |        |        |        |
| RBA Cash Rate, %             | 0.10           | 0.10   | 0.25   | 0.75   | 1.00   | 1.25   | 1.50   |
| 90 Day BBSW, %               | 0.20           | 0.20   | 0.35   | 0.85   | 1.20   | 1.45   | 1.70   |
| 3 Year Swap, %               | 2.49           | 2.10   | 2.00   | 2.00   | 2.10   | 2.15   | 2.20   |
| 10 Year Bond, %              | 2.80           | 2.90   | 2.80   | 2.50   | 2.40   | 2.25   | 2.10   |
| <b>US Interest Rates:</b>    |                |        |        |        |        |        |        |
| Fed Funds Rate, %            | 0.375          | 1.375  | 1.875  | 2.375  | 2.375  | 2.375  | 2.375  |
| US 10 Year Bond, %           | 2.37           | 2.60   | 2.60   | 2.30   | 2.20   | 2.15   | 2.10   |
| <b>USD Exchange Rates:</b>   |                |        |        |        |        |        |        |
| AUD-USD                      | 0.7517         | 0.73   | 0.75   | 0.76   | 0.77   | 0.78   | 0.79   |
| USD-JPY                      | 121.83         | 122    | 121    | 121    | 120    | 120    | 119    |
| EUR-USD                      | 1.1026         | 1.10   | 1.11   | 1.12   | 1.13   | 1.14   | 1.15   |
| GBP-USD                      | 1.3201         | 1.33   | 1.34   | 1.35   | 1.36   | 1.37   | 1.37   |
| NZD-USD                      | 0.6970         | 0.68   | 0.70   | 0.71   | 0.72   | 0.72   | 0.73   |
| <b>AUD Exchange Rates:</b>   |                |        |        |        |        |        |        |
| AUD-USD                      | 0.7517         | 0.73   | 0.75   | 0.76   | 0.77   | 0.78   | 0.79   |
| AUD-EUR                      | 0.6818         | 0.66   | 0.68   | 0.68   | 0.68   | 0.68   | 0.69   |
| AUD-JPY                      | 91.580         | 89.1   | 90.8   | 92.0   | 92.4   | 93.6   | 94.0   |
| AUD-GBP                      | 0.5694         | 0.55   | 0.56   | 0.56   | 0.57   | 0.57   | 0.58   |
| AUD-NZD                      | 1.0789         | 1.07   | 1.07   | 1.07   | 1.08   | 1.08   | 1.09   |

|                       | 2020 | 2021 | 2022 (f) | 2023 (f) |
|-----------------------|------|------|----------|----------|
| GDP, %                | -0.8 | 4.2  | 5.5      | 2.7      |
| CPI (Headline), %     | 0.9  | 3.5  | 4.1      | 2.3      |
| CPI (Trimmed mean), % | 1.2  | 2.6  | 3.4      | 2.9      |
| Unemployment Rate, %  | 6.8  | 4.7  | 3.8      | 3.9      |
| Wages Growth, %       | 1.4  | 2.3  | 3.2      | 3.5      |

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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