Australia’s 2018/19 Budget

Federal Budget 2018/2019

‘Plan for a stronger economy’

Projected deficit $14.5 billion
Government debt $350b (18.4% of GDP)
Projected GDP growth 3.00%
Infrastructure spending $25b
Projected inflation 2.25%
Government receipts $474b
Government payments $485b
Iron ore forecast US$55

At a glance...

- Budget deficit of $14.5 billion forecast for 2018/19
- Budget surplus of $2.2 billion now forecast for 2019/20
- Seven year personal income tax plan
- A new tax offset for low/middle income taxpayers from 2018/19
- $25 billion of new infrastructure spending
- Abolish superannuation fund exit fees
- An expanded Pension Work Bonus scheme
- Extend the $20,000 instant asset write-off for small business
- A third round of the Building Better Regions Fund
- Black economy package
- Better targeting the Research and Development Tax
- New listings Pharmaceutical Benefits Scheme


Craig James – Chief Economist (612) 9118 1806 (work); Twitter: @CommSec
Ryan Felsman – Senior Economist (612) 9118 1805 (work); Twitter: @CommSec

Produced by Commonwealth Research based on information available at the time of publishing. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. To the extent permitted by law, neither Commonwealth Bank of Australia ABN 48 123 123 124 nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.

The report has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should, before acting on the information in this report, consider the appropriateness of the information, having regard to the individual’s objectives, financial situation and needs and, if necessary, seek appropriate professional advice. In the case of certain securities Commonwealth Bank of Australia is or may be the only market maker.

This report is approved and distributed in Australia by Commonwealth Securities Limited ABN 60 067 254 399 a wholly owned but not guaranteed subsidiary of Commonwealth Bank of Australia. This report is approved and distributed in the UK by Commonwealth Bank of Australia incorporated in Australia with limited liability. Registered in England No. BR250 and regulated in the UK by the Financial Conduct Authority (FCA). This report does not purport to be a complete statement or summary. For the purpose of the FCA rules, this report and related services are not intended for private customers and are not available to them.

Commonwealth Bank of Australia and its subsidiaries have effected or may effect transactions for their own account in any investments or related investments referred to in this report.
Federal Budget 2018/19:
‘Plan for a stronger economy’

Making Sense of it
The Federal Budget is hardly the most riveting document you are ever likely to read. Sure you know it’s important, but the problem is that it’s a huge document with countless facts, figures and tables. And when it comes to analysis, economists seem to be writing for other economists; and accountants writing for other accountants.

It’s always important to remember that it is just a budget, the same that any household or company would prepare. Assumptions are made; forecasts are taken; and events can change.

When the 2017/18 budget was first conceived in May 2014, a deficit of $2.8 billion was projected. Today, a deficit of $18.2 billion is tipped for the current year ending in June.

And then there is the small matter of politics. The government outlines the measures that it believes are important for the short and medium-term health of the economy. But given the absence of a majority in the Senate this means that the government needs to seek agreement with other parties for the measures to become law.

And ideally the government should be laying out a medium-term strategy, especially to reform the tax base, but lack of agreement between the major parties is delaying this essential planning.

Still, at the end of the day most people want to know whether it’s a “good” budget and what’s in it for them. It doesn’t matter whether you are a student, pensioner or CEO of a major company.

So this analysis is different.

Sure, there are the usual tables, graphs, facts and figures. But we reckon that there are only two questions most people want answered and that’s where we will be concentrating:

Did the government get it right?  
Who are the winners and losers?

1. The Analysis Pages 3-5
2. Taxing & spending Pages 6-8
3. The Economy Page 9
4. Global backdrop Page 10
5. Future fund and GST Page 11
6. Selected Charts Page 12
7. Impact - Rates, $A, Shares Page 13
1. The Analysis

**Did the government get it right?**

“Plan for a stronger economy”

- Each budget has a theme. Last year the theme of the budget was “Making the right choices”. This year, and with the finances in far better shape, the government is looking to invest in the future. The theme is “Plan for a stronger economy.” But the sub-theme is 23.9: the aim to keep tax receipts below 23.9 per cent of GDP.

- So while extra dollars are being spent on infrastructure – roads, railways etc. – at the same time, the government has also mapped out reforms of the personal tax system over the next seven years.

- Are these the right choices in the current environment? While we ask this question every year, it is particularly apt this year. Because in tougher times, when funds are harder to come by, governments have fewer choices. Some spending may need to be cut to ensure that key programs are maintained. And with fewer dollars available, the government is also constrained from starting new projects or programs.

- But when there are more dollars floating around, there are also more suggestions about the ‘right’ way to spend or allocate them. In other words that old economic problem – unlimited ‘wants’ with limited means or resources.

- And so there has been plenty of debate over the past few weeks. Some have suggested that unemployment recipients are being hard done by, and extra dollars should be given to the unemployed to allow them to cover essential items. Apart from being supported on “fairness” grounds, it is argued that the extra dollars are more likely to be spent. So, the extra spending will find its way into the tills of retailers and other consumer-focused businesses, and, in turn, will be spent again, thus providing momentum for the economy.

- Others argue that the extra dollars available to the government should be used to get the budget back into surplus at an earlier date, and therefore be used to pay down the debt earlier than originally planned. Given that debt interest is rising at a $17 billion annual rate, there is value in a quicker pay down of debt. Certainly there are better ways to spend $17 billion each year.

- It is also important to always remember that government budgets – state and federal – are political documents as
well as economic documents. (The federal election must be held before May 18 2019). Whether it is responsible or not, voters will take a dim view of decisions to hike taxes or cut expenses. And the closer you are to poll date, the greater the risk that the electorate will make their feelings known at the ballot box.

- On the other hand, tax cuts and increased spending would be more likely to meet with a favourable response by the electorate. That is, up to a point. If the government is perceived as reckless, looking just to ‘buy’ votes (‘pork barrelling’) and not seen to be acting in the longer-term interests of the nation, then any “goodies” may not get the customary favourable treatment from voters.

**The key measures**

- The centre-piece of the budget is a seven year plan to reform the personal tax system. Modest tax relief is proposed for low and middle income taxpayers via a new tax offset. The plan claims to tackle bracket creep and also includes a proposal to simplify the tax scales by abolishing the 37 per cent tax bracket. Also included in the budget is more spending on infrastructure, superannuation reforms, measures to tackle the black economy, measures for small business and various smaller initiatives across health, welfare and education. There are no major savings initiatives as revenues more than cover proposed spending.

**So are these the ‘right’ measures for the time?**

- There are a number of things to consider. With no change in tax rates, higher wages (even modest wage increases around 2 per cent a year) will push more people into higher tax brackets. And not just more people, but more of the income of higher-income taxpayers will be pushed into higher tax brackets. The problem with that is it potentially causes more people to question why they are working, or working so hard – a negative development given that the proportion of people in jobs, or looking for work, is at record levels.

- The last thing that Australia needs at present is for people to question why they are working and to withdraw their services from the job market. In addition, Australia needs to be encouraging effort, especially productivity. Higher productivity is the route to higher wages.

- There is no getting away from the fact that Australia has an ageing population. To address this, through successive governments over the past decade Federal Treasury has employed the PPP policy. That is, Treasury has employed measures to lift **Population, Productivity and Participation** in the workforce. If a government was to back-track from that commitment, there would be medium-term deterioration in our finances, necessitating higher taxes, lower spending and less generous pensions.

- Tax cuts for low to middle income earners encourage effort and participation in the workforce and tax cuts have greater potential to boost spending and economic momentum.

- Infrastructure spending is important to keep the economy operating efficiently and therefore boost productivity as well as being important to sustain our standard of living.

**Looking ahead**

- Is there ever a ‘right’ time to provide tax relief? Some will say wait until the budget is balanced. Then others will say wait until there is an adequate surplus. And invariably when that surplus is in sight, there will be an economic downturn, killing off any proposal for tax relief. And in the background, more taxpayer incomes are pushed into higher tax brackets.

- governments can walk and chew gum at the same time. It is a question of balance. If that wasn’t the case the National Disability Insurance Scheme (NDIS) would never have got off the ground.

- The government is proposing modest tax relief, infrastructure spending and the continuation of spending restraint. The assistance for low and middle income earners is modest, given that it provided through a tax offset. Infrastructure building will support economic momentum. At the same time, the budget is now tipped to be in surplus in 2019/20 – it will probably get there far earlier.

- A government can only make the choices that it believes are in the best interests of the people. Each government will have a different view.

- Are the current choices ‘right’ for the times? Yes they are. The budget is unlikely to be cheered or jeered by any group in the economy. The government is leaving the better economic times to work the magic in improving the budget bottom line. Are the choices the ‘right’ ones in the eyes of the electorate? For that we have to wait and see.
Who are the winners & losers? (Source: Budget Papers, Bloomberg)

**Winners**

**Low and middle income earners**
- Starting 1 July 2018, low and middle income earners will get an annual lump sum of up to $530 a year. The government is amending tax brackets to offer tax relief. The 37 per cent tax rate won't kick in until people start earning A$90,000, instead of the current A$87,000, with the threshold rising to A$120,000 in 2022-23.
- The Medicare levy will be retained at 2 per cent, instead of increasing it to 2.5 per cent from 1 July 2019.

**Pensioners, the elderly and aged care**
- The government will spend $1.6 billion over four years to increase the number of home care places by 14,000 to support older Australians who want to stay at home rather than going into residential aged care.
- Subsidies of $10,000 for employers who take on older workers to combat age discrimination. The elderly could earn as much as $300 a fortnight without it reducing their right to a state pension. Expanded Pension Work Bonus will allow pensioners to earn an extra $1,300 a year.

**Infrastructure**
- The government is funding $24.5 billion in new major transport projects and initiatives. These projects and initiatives are part of the government’s $75 billion investment in transport infrastructure over the next decade.

**Health care**
- An extra $1.4 billion over five years from 2017-18 for new Pharmaceutical Benefits Scheme listings, including medicines to treat spinal muscular atrophy, breast cancer, refractory multiple myeloma, relapsing-remitting multiple sclerosis and a new medicine to prevent HIV. The government pledged A$500 million over 10 years to boost genomic research. And $39.5 million to provide whooping cough vaccine to pregnant women.

**Technology infrastructure**
- $2.4 billion to boost the nation’s technological infrastructure, including funding for a national space agency, better satellite imagery, more accurate GPS and research in artificial intelligence.

**Environment**
- $536 million to secure the future of the Great Barrier Reef.

**Indigenous Australians**
- $550 million over five years from 2018-19 to address remote housing needs in the Northern Territory.

**Border control and airport security.**
- An extra $294 million to boost airport security.

**Losers**

**Black economy and welfare recipients**
- The government aims to raise $1.9 billion by better combating the black economy. It will also crack down on illegitimate use of research and development (R&D) tax incentives, raising $2.4 billion over the next four years.
- A new $10,000 limit for cash payments for goods and services from 1 July 2019. $3 billion will be raised over the next four years by increasing audit measures to crack down on tax avoidance and money laundering.
- A crack down on illicit tobacco smuggling to raise an additional $3.6 billion over the next four years.
- Savings of nearly $300 million by 2019-20 by increasing Centrelink fraud detection processes and debt recovery.

**Superannuation funds and life insurers**
- Abolishing fees for exiting a fund, cap charges on accounts with balances of less than $6,000 and stop funds from forcing the under-25s to pay for life insurance policies they don't need.

**Banks**
- The bank levy will continue, the new Australian Financial Complaints Authority will start on 1 November 2018 and the previously announced regime to hold bank executives to account will start on 1 July 2018.

**Pharmaceutical companies**
- The government will encourage use of generic and biosimilar medicines, to raise $336 million over five years from 1 July 2018.

**New immigrants**
- From 1 July 2018, new migrants will have to wait four years instead of three before they can access certain welfare benefits totalling around $200 million in missed welfare benefits.
2. Taxing & Spending

What is included in the budget?
(Quotes taken largely in full from Budget papers)

Personal income tax plan
- The highlight of the Federal Budget is a seven-year Personal Income Tax Plan which provides tax relief for low and middle income earners and stops tax bracket creep.
- The immediate benefit will be up to $530 a year and up to $1,060 for a working couple, starting in 2018-19.
- By lifting the 32.5 per cent tax bracket to $90,000 from 1 July 2018, around 200,000 taxpayers will be prevented from moving into the 37 per cent tax bracket, which will be abolished from 2024-25.

Airports, road, rail
- The government is funding $24.5 billion in new major transport projects and initiatives. These projects and initiatives are part of the government’s $75 billion investment in transport infrastructure over the next decade.
- The government is establishing the Roads of Strategic Importance initiative, providing funding of $3.5 billion to upgrade key routes.
- A $1 billion Urban Congestion Fund is being set up to tackle urban congestion in cities.
- A Major Project Business Case Fund is being established with a contribution of $250 million for the Commonwealth’s early involvement in major project business case development.
- The major projects include: $971 million for the Pacific Highway Coffs Harbour Bypass (NSW); $5 billion for the Melbourne Airport Rail Link and $1.8 billion for the North East Link (both Victoria); $3.3 billion for the Bruce Highway and $1 billion for the M1 Pacific Motorway (both Queensland); $1.1 billion for the Metronet rail project (WA); $1.4 billion for North-South Road Corridor projects (South Australia); $461 million for the Bridgewater Bridge replacement (Tasmania); $100 million for the Monaro Highway (ACT); and $280 million for upgrades of the Central Arnhem Road and the Buntine Highway (Northern Territory).

Regional development & environment
- The government is providing $200 million for a third round of the Building Better Regions Fund to support regional infrastructure and community investment.
- $535.9 million to secure the future of the World Heritage-listed Great Barrier Reef and the jobs it supports.

Medical and Health
- The government has fully funded a new five-year public hospital agreement from 2020–21 to 2024–25. This agreement will deliver an additional $30 billion compared with the previous five years.
- The Federal Budget includes $1.4 billion for new and amended listings on the Pharmaceutical Benefits Scheme (PBS) including medicines for spinal muscular atrophy, breast cancer, refractory multiple myeloma,
relapsing-remitting multiple sclerosis and the prevention of HIV, ensuring Australians continue to have access to affordable medicines.

- This Budget includes a $1.3 billion National Health and Medical Industry Growth Plan. The Growth Plan includes a ten-year $500 million commitment to the Genomics Health Futures Mission, as well as a further $707.3 million in funding from the Medical Research Future Fund.
- Around $154 million to promote healthy living, including $83 million for existing community sport facilities and to expand local and school sporting programs. The government will provide $20.9 million to improve the health of women and children in their first 2,000 days of life.

Aged care

- The government has committed $1.6 billion to provide about 14,000 additional high-level home care packages, enabling people to live in their own homes for longer.
- $146 million to improve access to aged care services in rural, regional and remote areas.
- To support the mental and physical health of older Australians, the government is spending $82.5 million to improve access to mental health services, $20 million to support older Australians to remain socially connected to their communities and $22.9 million to promote increased physical activity.

Education and Schools

- The government is delivering the $24.5 billion Quality Schools package with schools to receive $18.7 billion, with a legislated rise to around $30 billion in 2027.
- The government is continuing to support Australian families to access preschool education by providing $440 million to extend the National Partnership Agreement on Universal Access to Early Childhood Education for the 2019 calendar year. This takes total preschool funding to around $870 million over the 2018 and 2019 school years.

Border Protection

- The government has announced a $294 million border services package, including $122 million to increase the presence and capabilities of the Australian Federal Police and Australian Border Force at nine major domestic and international airports; $122 million to enhance screening capability for inbound air cargo and international mail with new and upgraded equipment and advanced technology; $160 million to help agencies fight crime and prevent terrorism, including $68.6 million to prevent child exploitation and abuse; and $50.1 million to support 64 regional airports to upgrade to new advanced screening technologies. The government will require major airports to upgrade screening technologies.

Technology, Research and Development

- The government is investing around $2.4 billion over 12 years in boosting Australia's research, science and technology capabilities to build a smarter economy and give Australians the skills they need to prosper.
- A $1.9 billion investment in research infrastructure over 12 years will support Australia's world-class research sector which has made breakthroughs like a new needle-free way to deliver vaccines and the cervical cancer vaccine.
- In this Budget the government will invest $224.9 million over four years to provide accurate satellite-based positional, navigation and timing (PNT) capability which will enhance GPS capability across Australia.

Business, multinationals tax and the black economy

- The Tax Avoidance Taskforce has been instrumental in ensuring multinationals comply with the law, resulting in the ATO raising $5.2 billion in tax liabilities from large companies since July 2016.
- Key measures announced in the Budget include increasing enforcement of illicit tobacco, an economy-wide cash payment limit of $10,000 to reduce money laundering and tax evasion.
- Black Economy Taskforce recommendations will bring in $5.3 billion over the next four years by targeting sectors that under report income. An extra $250 million for the Skilling Australians Fund.
- Instant asset write off for business with a turnover up to $10 million extended to purchases up to $20,000.

Welfare

- Social security and welfare is the largest component of government spending, with $176 billion estimated to be spent in 2018-19.
- The government will save $299 million over three years from 2019-20 by extending fraud detection and debt recovery activities and $203 million over five years from 2017-18 by increasing the waiting period to four years for newly arrived migrants to access certain welfare benefits from 1 July 2018.
- The government will provide $316 million over four years from 2018-19 to continue the transformation of Centrelink's ageing technology platform and streamline the delivery of welfare payments.
2. Taxing & Spending

Outcome, Payments & Revenues

### BUDGET BOTTOM LINE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Cash Balance - $B</td>
<td>-$33.2</td>
<td>-$18.2</td>
<td>-$14.5</td>
<td>$2.2</td>
<td>$11.0</td>
<td>$16.6</td>
</tr>
<tr>
<td>% of GDP</td>
<td>-1.9</td>
<td>-1.0</td>
<td>-0.6</td>
<td>0.1</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Net Debt - $B</td>
<td>$322.3</td>
<td>$341.0</td>
<td>$349.9</td>
<td>$344.0</td>
<td>$334.3</td>
<td>$319.3</td>
</tr>
<tr>
<td>% of GDP</td>
<td>18.3</td>
<td>18.6</td>
<td>18.4</td>
<td>17.3</td>
<td>16.1</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Source: Budget Papers

#### Where revenue comes from (2018-19)

- Individuals income tax $222.9 billion
- Non-tax revenue $34.1 billion
- Customs duty $15.5 billion
- Fuels excise $10.5 billion
- Sales taxes $72.1 billion
- Other excise $3.6 billion
- Other taxes $10.1 billion
- Company and resource rent taxes $92.6 billion
- Superannuation taxes $10.4 billion
- Fringe benefits tax $4.3 billion

#### Where taxpayers’ money is spent (2018-19)

- General public services $23.1 billion
- Defence $31.2 billion
- Education $34.7 billion
- Health $78.6 billion
- Social security and welfare $176 billion
- Other purposes $56 billion
- All other functions $46.7 billion
3. The Economy

Are the economic assumptions reasonable?

- In short, yes. In part this reflects the absence of volatility in variables like economic growth and inflation in recent years. And the expectation is that the relatively stable positive numbers will continue over the next year.

- Last year Federal Treasury expected the economy to grow by around 2.75 per cent in 2017/18. Inflation was tipped to grow around 2.0 per cent with wages lifting around 2.5 per cent.

- Wage growth will most likely end up slower than forecast – as Treasury acknowledge. Inflation and economic growth forecasts will be close to the mark while the unemployment rate should be better (lower) than forecast. But the differences are not significant.

- In 2018/19, Federal Treasury expects the economy to grow around 3 per cent. Inflation may remain toward the bottom-end of the Reserve Bank’s 2-3 per cent target band while modest improvement is expected in the job market.

- The Reserve Bank currently expects economic growth to average 3 per cent in 2018 and 3.25 per cent in 2019. In 2018/19 economic growth is expected to be 3.25 per cent. Despite GDP growth at or above “potential” growth, annual underlying inflation is generally expected to be 2 per cent through to December 2019 – the bottom of the 2-3 per cent target band.

- One forecast worth focussing on is the estimate of nominal GDP – the assumption that is important for projected tax receipts. In calendar 2017, nominal GDP grew by 5.7 per cent – above the decade average of 4.9 per cent. The hope is that growth of nominal GDP is now tracking at its “new-normal” pace.

- Still, in 2018/19, Federal Treasury expects nominal GDP to grow by only 3.75 per cent and then lift by 4.75 per cent in 2018/19. The forecasts are indeed conservative and therefore achievable.
4. Global backdrop

‘Above-normal’ growth for the global economy

- In April 2018, the International Monetary Fund (IMF) forecast the global economy to expand by 3.9 per cent in 2018, after growing by 3.8 per cent in 2017 and by 3.2 per cent in 2016. Growth of 3.9 per cent is above the 3.5 per cent average growth rate recorded over the past 40 years.
- In 2019, the IMF tips growth of 3.9 per cent before easing to 3.8 per cent in 2020, 3.8 per cent in 2021, 3.7 per cent in 2022 and almost 3.7 per cent in 2023.
- The hope is now that the global economy is on a firmer, low-inflationary growth path. Globalisation and technology should continue to drive innovation and lift business competition, keeping inflation low, together with interest rates.
- China is tipped to grow by 6.6 per cent in 2018 and 6.4 per cent in 2019 after 6.9 per cent growth in 2017. Growth rates will gradually slow over time as the economy joins the ranks of advanced, industrialised economies.
- The Euro area is expected to exhibit good growth with GDP tipped to lift by 2.4 per cent in 2018 before tailing off to 2.0 per cent in 2019 and, further out, to 1.4 per cent in 2023.
- But firmer growth is expected in the US. The IMF tips growth of 2.9 per cent in 2018 and 2.7 per cent in 2019 after expanding 2.3 per cent in 2017. The Federal Reserve started lifting interest rates in December 2015. There was one rate hike in December 2016 and another three in 2017. Economists tip another two, or even three rate hikes in 2018 but clearly much will depend on wages lifting in response.
- Federal Treasury influences the IMF and OECD forecasts for Australia. But looking at The Economist poll of forecasters, the Australian economy is tipped to grow by 2.8 per cent in both 2018 and 2019. If realised over the two years, Australian economic growth will be the fastest of the major developed economies.
5. Nation building funds and GST

Government investments

- The value of all the nation-building funds currently stands at $165.9 billion, up from $148 billion a year ago.
- The Future Fund was set up to provide for the unfunded superannuation liabilities of Commonwealth public servants. As at March 31 2018, the Future Fund stood at $140.8 billion, up $11.1 billion over the past year or 8.6 per cent.
- The Building Australia Fund was set aside for “the creation or development of transport, communications, energy, and water infrastructure and in relation to eligible national broadband matters”. As at March 31 2018, the Building Australia Fund stood at $3.8 billion.
- The Education Investment Fund was set aside to make payments for education infrastructure. As at March 31 2018 the Education Investment Fund had assets of $3.80 billion. Over the past year the Building Australia Fund generated a return of 2.1 per cent against a benchmark target of 2.0 per cent. The Education Investment Fund generated a return of 2.0 per cent, meeting its benchmark target of 2.0 per cent.
- The Medical Research Future Fund (MRFF) was set up on January 1 2015 with the aim to grow the fund to $20 billion. As at March 31 2018 the MRFF was valued at $7.1 billion, up from $4.6 billion a year ago.
- The Disability Care Australia Fund (DCAF) was established to provide support for Australians with significant and permanent disability. The DCAF received its first contribution on November 26 2014. As at March 31 2018 the DCAF had received contributions of $10.4 billion, up from $6.2 billion over the year.

Goods and services tax (GST)

- To some extent this is the “forgotten” tax (unless you live in Western Australia). Despite the fact that the GST is the third biggest revenue generator behind personal tax and company tax, it tends not to feature in budget analyses. All of the revenue goes to the states and territories so it certainly has a major influence on the ability of governments to spend across the community.
- Receipts from the Goods and Services Tax stood at a record high of $65.43 billion in the twelve months to March, up 5.4 per cent on a year ago. The government has forecast GST receipts of $65.56 billion for the entire 2017/18 year.
- Actual GST receipts for the nine months to March stood at $49.03 billion, above the Budget ‘profile’ of $48.33 billion.
- “Receipts from GST are forecast to grow by 6.1 per cent in 2017-18 and 6.1 per cent in 2018-19. Compared with the 2017-18 MYEFO, receipts are expected to be around $1.1 billion higher in 2017-18, $1.5 billion higher in 2018-19 and $6.1 billion higher over the four years to 2021-22.” “GST has been revised up by $6.1 billion over the four years.” “Stronger household consumption forecasts, supported by the stronger labour market outlook and the government’s personal income tax policies, have seen upward revisions to GST of $4.5 billion and excise and customs duty of $2.8 billion over four years.”

### Investing for the future

<table>
<thead>
<tr>
<th>Assets as at March 31 2018</th>
<th>$billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future Fund</td>
<td>$140.78</td>
</tr>
<tr>
<td>Disability Care</td>
<td>$10.40</td>
</tr>
<tr>
<td>Medical Research</td>
<td>$7.11</td>
</tr>
<tr>
<td>Education Investment Fund</td>
<td>$3.80</td>
</tr>
<tr>
<td>Building Australia Fund</td>
<td>$3.80</td>
</tr>
</tbody>
</table>

Source: futurefund
6. Selected Charts

Company tax at record highs

Source: Department of Finance, RBA, CommSec

Infrastructure heads higher again

Source: ABS, CommSec

Budget repair

Source: Department of Finance, CommSec

Positive trends

Source: Department of Finance, CommSec

Trimmed spending

Source: Department of Finance, CommSec

Slower health spending

Source: Department of Finance, CommSec
7. Impact – Interest rates, Currency & Shares

**Interest rates**
- The Federal Budget has few implications for interest rate settings. Spending on infrastructure will provide support for the economy over the next year. On the other hand, the budget deficit is expected to narrow, effectively taking dollars out of the economy. In this environment the Reserve Bank is expected to maintain accommodative monetary policy settings, especially if inflationary pressures remain contained.
- The Reserve Bank has left interest rates unchanged for 21 straight months – the longest period of stability for the cash rate. It’s important to remember that the 1.5 per cent cash rate is at a record low – and still at “emergency” levels. The Reserve Bank expects the next move in rates to be up, but it also intimates that any rate hike is still some way off. The Reserve Bank expects stronger economic growth to lead to higher growth of wages and prices, but it also expects the process to be a gradual one.

**Australian dollar**
- The Federal Budget has few implications for the currency. The more important influences on the Aussie dollar over the next year are global economic growth (especially the contribution from China); trade issues; US monetary policy (the number of interest rate hikes to be delivered); commodity prices; and the path of Australian interest rates.
- The Chinese economy continues to record healthy growth with consumption taking on a bigger role as a growth driver from production and exports. Building and construction are also recording solid growth rates. But as the Reserve Bank notes “high level of debt (is) continuing to present a medium-term risk.”
- The US Federal Reserve is expected to lift rates at least another two times over 2018. And another 2-3 rate hikes could be applied in 2019. The Federal Reserve is aiming to lift the federal funds rate to a peak level of around 3.0-3.5 per cent. But with wage and price inflation still constrained, that peak level of rates may prove too high.
- CBA group currency strategists expect the Aussie dollar to continue to hold in the mid-to high 70s against the US dollar over the next year.

**Sharemarket implications**
- With the Federal election due by May 2019, tonight’s Federal Budget is strategically targeted across the electorate to win votes, boost consumer spending, prolong the construction boom and lift health care-related services. We expect Aussie sharemarket investors to react favourably to the stimulatory household and infrastructure spending measures announced by the Turnbull government.
- The proposed personal tax cuts are modest, but should underpin improving consumer confidence. The ANZ-Roy Morgan consumer sentiment index, released today, lifted to 13-week highs. With retail spending currently around “normal” levels, the government is encouraging Aussies to spend rather than save, despite elevated mortgage debt and slow wages growth. Electronics and goods retailers such as JB Hi-Fi and Harvey Norman, together with consumer staples companies Woolworths and Wesfarmers could all get a ‘shot in the arm’.
- And Qantas, Virgin Australia and Flight Centre (tourism), Crown Resorts (hotels and gambling) and Carsales.com (motor vehicles) may be boosted by increased spending on domestic holidays and motor vehicles.
- The construction boom continues with an additional $25 billion in infrastructure spending announced. Building materials’ companies Adelaide Brighton, CIMIC, Boral, CSR and Lendlease, together with listed infrastructure and transportation companies’ Transurban, Aurizon, Sydney Airport and Macquarie Atlas Roads all stand to benefit.
- Building approvals for aged care commercial facilities have increased by around 40 per cent over the past year. Aged care operators such as Ramsay Health Care, Healthscope, Summerset and Japara stand to benefit.
- We don’t see many losers from tonight’s Federal Budget, but energy-focused companies’ Woodside Petroleum and Santos will face some near-term headwinds from changes to the Petroleum Resources Rent Tax (PRRT).
- As of close of trade on May 8, the S&P/ASX200 index was up by 0.4 per cent year-to-date. The ASX200 is outperforming the Dow Jones Industrial Average index (-1.5 per cent) and the S&P500 index (flat) over the year.