

Key Policy in discussion

FISCAL OUTLOOK

Date Issued

3 April 2022

Key author/s of this budget analysis: Dr Leonora Risse

Chair, Social Policy Committee NFAW: Prof. Helen Hodgson 0418 906 162 h.hodgson@tpg.com.au

Key Points

- The Australian economy has moved into a period of strong economic growth and employment conditions, following the recessionary period of the first year of the pandemic. The Government's fiscal stimulus, including \$314 billion in direct economic support, contributed to a faster-than-anticipated economic recovery.
- Tight labour market conditions are expected to generate an unemployment rate of 4% for 2021-22, with workforce participation at historically high rates including for women.
- However, such strong economic growth and supply-side constraints have generated inflationary pressures. Australia's annual inflation rate is at 3.8% for 2020-21 and is expected to reach to 4.25% in 2021-22. This takes the annual inflation rate above the RBA's target range.
- Higher inflation has not been matched by a commensurate growth in wages, meaning that real wages are falling.
- The Women's Budget Statement allocated \$2.1 billion to initiatives to support women and girls, with components of expenditure dispersed over several years. Total expenditure announcements across all items in the Budget amounted to \$628 billion for 2022-23. Expenditure announcements in the Women's Budget Statement amounts to no more than 0.3% of total expenditure.
- The Women's Budget Statement provides a gender-focused analysis in areas of direct relevance to women, but does not provide a gender impact assessment across the entirety of all budget measures. Applying a gender lens across all areas of expenditure and revenue measures, through the process of Gender Responsive Budgeting, would provide more comprehensive analysis and support more gender equitable policy development.

Economic Outlook

Following the recession experienced in the first year of COVID-19 pandemic, the Australian economy returned to positive economic growth in 2020-21, with jobs and employment rebounding faster than

The National Foundation for Australian Women is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women. NFAW is a feminist organisation, independent of party politics and working in partnership with other women's organisations.

Authorised by the National Foundation for Australian Women, Canberra: President Ms Jane Madden.

anticipated. The large fiscal stimulus the Government’s response to the economic shock of the pandemic contributed to this aggregate recovery.

Table 1: Major economic parameters^(a)

	Outcome	Forecasts				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Real GDP (%)	1.5	4 1/4	3 1/2	2 1/2	2 1/2	2 1/2
Employment (%)	6.5	2 3/4	1 1/2	1 1/2	1	1
Unemployment rate (%)	5.1	4	3 3/4	3 3/4	3 3/4	4
Consumer price index (%)	3.8	4 1/4	3	2 3/4	2 3/4	2 1/2
Wage price index (%)	1.7	2 3/4	3 1/4	3 1/4	3 1/2	3 1/2
Nominal GDP (%)	4.4	10 3/4	1/2	3	5 1/4	5

Source: Budget 2022-23, Budget Paper No. 1, Table 1.1

Notes: (a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia and Treasury.

Real GDP grew at 1.5% for 2020-21, with the Budget forecasting annual economic growth to jump to 4.25% for 2021-22, before easing to 3.5% in the following financial year (Table 1).

The unemployment rate of 5.1% recorded in the June quarter of 2021 is forecast come in at 4.0% in the June quarter for 2021-22, and continue to fall further to 3.75% by 2022-23. These unemployment figures are supported by strong participation, including among women. Australia’s workforce participation rate reached a record high of 66.4% in February 2022.

These strong economic conditions have, however, brought inflationary pressures. In addition to the inflationary effects activated by higher aggregate demand, supply disruptions and skill shortages have contributed to higher production costs. The higher costs of critical inputs such as oil have been compounded by recent global conflicts, namely the Russian invasion of Ukraine. These combined factors have contributed to Australia’s inflation rate, as measure by the percentage change in the Consumer Price Index (CPI) reaching 3.8% in the June quarter for 2020-21. Inflation is forecast to rise further to 4.25% in 2021-22. After several years where Australia’s inflation rate sat below the RBA’s target range (defined as between 2% to 3% on average over time), these recent inflationary pressures now take Australia’s inflation rate above the target range.

These stronger economic conditions have not been matched by stronger wage growth. The wage price index has grown at a slower rate than inflation, namely at a rate of 1.7% for the June quarter of 2020-21. This means that growth in wages has been outstripped by growth in average price levels, and real wage growth has been negative.

Across all nominal amounts considered in the Budget, the fact that the inflation rate has been higher than anticipated means that any nominal payment amounts, such as social security payments, that are *not* indexed to inflation are weaker in real terms.

The Australian economy has transitioned out of recession and into the upswing phase of the macroeconomic business cycle, where employment opportunities are stronger but the supply side of the economy is under pressure. The effects of the COVID-19 pandemic, including disruptions to labour supply and access to skilled workers, have contributed to supply-side constraints and production pressures.

The rise in inflation has seen the Budget shift its focus to targeting cost of living pressures. While partly reflective of changing macroeconomic conditions in both the domestic and global economy, this constitutes a shift in economic narrative from the Government compared to its previous fiscal

statements. In the previous two Budget, fiscal policy was focused on preserving jobs and supporting businesses throughout the disruptions of the pandemic. Prior to the pandemic, the Government’s fiscal priority was squarely placed on attaining a budget surplus.

This Budget also see large increases in expenditure on defence and security. Expenditure on defence, at \$35.8 billion for 2021-22, has now risen to over 2% of GDP. The Budget places heightened focus on domestic manufacturing and digital innovation, and maintains strong investment in physical infrastructure projects, with an additional \$17.9 billion allocated to road, rail and community infrastructure projects across Australia.

The Budget acknowledges the devastating impact of recent flood events in New South Wales and Queensland communities: \$3.6 billion has been allocated to households, businesses and communities in response, and the Government expects to spend a total of over \$6 billion on disaster relief and recovery.

Budget Aggregates

Australia’s fiscal position has been strengthened by a better-than-expected economic recovery and strong labour market conditions, in combination with higher near-term commodity prices. The Budget reports that these factors have contributed towards an improvement in the underlying cash balance, resulting from upward revision to tax receipts and a reduction in unemployment benefit payments.

The underlying cash balance for 2020-21 of \$134.2 billion constitutes a deficit equivalent to 6.5% of GDP. This is projected to fall to the equivalent of 3.5% of GDP in 2021-22.

Net debt, at \$28.6 billion in 2020-21, constitutes the equivalent of 28.6% of GDP. The net debt-to-GDP ratio is forecast to rise over the next four years, reaching 33.1% of GDP by 2024-25.

Table 2: Budget aggregates

	Actual	Estimates					Total ^(a)	Projection
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26		2032-33
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
Underlying cash balance	-134.2	-79.8	-78.0	-56.5	-47.1	-43.1	-224.7	
Per cent of GDP	-6.5	-3.5	-3.4	-2.4	-1.9	-1.6		-0.7
Gross debt ^(b)	817	906	977	1,056	1,117	1,169		
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7		40.3
Net debt ^(c)	592.2	631.5	714.9	772.1	823.3	864.7		
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1		26.9

Source: Budget 2022-23, Budget Paper No. 1, Table 1.2

Notes: (a) Total is equal to the sum of amounts from 2022-23 to 2025-26. (b) Gross debt measures the face value of Australian Government Securities (AGS) on issue. (c) Net debt is the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

A focus on women

To place a gender lens across these aggregate economic metrics, Table 3 presents key labour market indicators disaggregated by gender.

Across these labour market indicators, a key observation is that women’s labour force attachment has been more volatile and generally fluctuates more than men’s. While men’s unemployment rate has

been fractionally higher than women's, women experience a consistently higher underemployment rate than men, indicative of greater difficulty securing sufficient work hours. Women's workforce participation climbed to a historical high of 62.4% in February 2022, but still sits around 9 percentage points behind men's, with proportionally more women in part-time employment than men.

Table 3: Labour market indicators by gender

Month	Employment numbers (000s)		Unemployment rate (%)		Underemployment rate (%)		Labour force participation rate (%)	
	Men	Women	Men	Women	Men	Women	Men	Women
Mar-2021	6825.6	6225.9	6.0	5.4	6.6	9.4	70.9	61.9
Apr-2021	6832.6	6190.1	5.8	5.1	6.4	9.2	70.8	61.3
May-2021	6880.2	6260.5	5.4	4.7	6.3	8.7	70.9	61.7
Jun-2021	6911.0	6259.0	5.1	4.7	6.9	9.0	71.0	61.6
Jul-2021	6931.1	6238.0	4.6	4.7	7.1	9.6	70.8	61.5
Aug-2021	6852.3	6166.9	4.6	4.4	8.5	10.2	70.1	60.5
Sep-2021	6791.0	6082.3	4.4	4.9	8.5	10.1	69.3	60.0
Oct-2021	6774.6	6048.3	5.0	5.4	9.0	10.1	69.5	60.0
Nov-2021	6928.6	6266.8	4.6	4.7	6.3	8.8	70.7	61.6
Dec-2021	6973.7	6292.6	4.1	4.2	5.6	7.7	70.9	61.5
Jan-2022	6928.0	6366.6	4.3	4.0	5.5	7.9	70.5	62.1
Feb-2022	6964.3	6407.7	4.2	3.8	5.3	7.9	70.7	62.4
Mar-2021	6825.6	6225.9	6.0	5.4	6.6	9.4	70.9	61.9
Apr-2021	6832.6	6190.1	5.8	5.1	6.4	9.2	70.8	61.3

Source: ABS, Labour Force Australia. All data are seasonally-adjusted. Underemployment is measured as the number of people who are employed but seek more hours, as a proportion of the labour force.

Across all economic metrics, aggregate figures will not reflect the experiences of all workers. For example, younger women, in particular, tend to experience higher rates of unemployment and under-employment. Disaggregating these indicators further by age, disability, Indigenous status, migrant status, cultural and linguistic background, geographic remoteness, sexuality and other important demographic characteristics would highlight further disparities in workforce experiences.

The Women's Budget Statement articulates a focus on three priority areas identified by the Government: women's safety; women's economic security and leadership; and women's health and wellbeing. The Women's Budget Statement announced a total of \$2.1 billion towards initiatives to support for women and girls, with several of these expenditure allocations stretched out over several years. For comparison:

- Defence is set to receive an additional \$2.3 billion in 2022-23, taking total defence expenditure to \$38.2 billion
- Road transport is set to receive an additional \$3.6 billion, taking total road expenditure to \$12.3 billion.
- Total expenditure announcements across all items in the Budget amount to \$628 billion for 2022-23. This means that the \$2.1 billion of expenditure announced on Women's Budget Statement amounts to no more than 0.3% of total expenditure.

The Women's Budget Statement is still little more than a collection of measures specifically targeting women. As a budget accountability measure it needs to be extended by applying a gender impact analysis across the entirety of the budget, through a process of Gender Responsive Budgeting (GRB). Placing a gender lens across all mainstream budget policies provides a more comprehensive and robust mechanisms to identify the ways that policies have different economic implications for men and women, and would serve to dismantle notions that areas such as childcare are exclusively a women's issue. A Gender Responsive Budgeting approach also applies a gender impact assessment to both expenditure and revenue-raising components of the Budget.