Revenue and Fiscal Outlook

Back in the Black?

Budget 2019 relies on fiscal stimulus to maintain growth in the economy. Consumer spending will increase as taxpayers receive the increased Low and Middle Income Tax Offset in the first part of the 2019-20 income year. However the structure of the tax cuts may reduce the efficiency of the stimulus package. Infrastructure spending and the extension of the instant asset write-off will also inject funds into the economy.

The question is whether this fiscal stimulus will adequately compensate for the weakness in wage growth; the downturn in the residential housing market and the weakening economies of our major trading partners.

The 2019-20 Budget estimates a significantly reduced fiscal deficit on a cash basis (the "underlying cash balance") of $7.1 billion in 2019-20, based on increased tax revenue; decreases in income support payments and the NDIS underspend. The underlying cash balance is predicted to increase until 2022-23, which is the year that the proposed personal income tax cuts take full effect.

Table 1: Budget aggregates

	Actual	Estimates			Projections		Total (a)
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	
Underlying cash balance ($b) (b)	-10.1	-4.2	7.1	11.0	17.8	9.2	45.0
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Net operating balance ($b)	-4.0	8.5	12.9	18.2	28.8	20.6	80.4
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Excludes expected net Future Fund earnings before 2020-21.

Source: Table 1, Budget Paper 1, Statement 3, 3-5.

The domestic economic outlook is expected to be driven by growth in employment, increases in wages and the proposed income tax relief measures.

Table 2: Major Economic Parameters

	Actual	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Real GDP	2.8	2.25	2.75	2.75	3	3
Employment	2.7	2	1.75	1.75	1.5	1.5
Unemployment Rate	5.4	5	5	5	5	5
Consumer Price Index	2.1	2.5	2.75	3.25	3.5	3.5
Wage Price Index	2.1	2.5	2.75	3.25	3.5	3.5
Nominal GDP	4.7	5	3.25	3.75	4.5	4.5

The budget papers forecast a growth in employment of 2% in 2018-19, 1.75% in the forward estimate years of 2019-20 and 2020-21, and 1.5% in the outlying projections. Women's workforce participation rates are at a record high of 60.6%; however many of the new jobs are not in permanent, secure employment.[1]

The economic forecasts reflect a reduction in tax receipts from the MYEFO, reflecting the personal income tax cuts proposed in this budget and changes to the parameters, particularly around household consumption, investment in housing and low wage growth.

There are also significant cuts in expenditure. Notably the budget predicts a reduction in social security payments including Newstart and other income support programmes, based on strong employment growth. The reallocation of the unused NDIS funding is also reflected in lower expenditure in future years.

International growth forecasts have been downgraded since the MYEFO. Current cash balances have been bolstered by an increase in commodity prices in the 2018-19 year, however there is significant uncertainty over international commodity markets, particularly the iron ore market, which would result in lower company tax collections.

Ultimately the success of the proposed fiscal stimulus will depend on consumer behaviour. Taxpayers will have the choice to spend or save the tax incentive: some will need to spend the refund to meet the cost of living, but the response to the cash bonus payments in 2008 showed that many taxpayers will save the refund as a buffer against further unanticipated financial costs.

[1] National Disability Services (2018), Australian Disability Workforce Report, February https://www.nds.org.au/policy/australian-disability-workforce-report-second-edition-highlights-workforce-risks1: Productivity Commission (2011), Caring for Older Australians, Vol 2,No. 53 <https://www.pc.gov.au/inquiries/completed/aged-care/report/aged-care-volume2.pdf 14.3 pp.357ff)