

Monday, 23 May 2022

Labor Win Brings Climate, Wages to Fore

Anthony Albanese has been sworn in as the next Prime Minister after his Labor party clinched victory in the election on Saturday, ousting the Coalition that had been in power since 2013.

The votes are still being counted. Several political analysts expect Labor will win enough seats to form a majority government. At the time of writing, Labor is expected to win 77 seats.

The election was also marked by a spectacular swing towards independent candidates and the Greens campaigning on climate change reform and a Federal Independent Commission Against Corruption (ICAC). There was also a strong swing away from the Coalition from female voters.

Liberal politicians are jostling to replace Scott Morrison as party leader, who resigned on Saturday following the election loss. Reports point to outgoing Defence Minister Peter Dutton as a possible frontrunner, after outgoing Treasurer Josh Frydenberg lost his seat of Kooyong.

So, what does it all mean for policy?

Well, this may depend on whether Labor secures a majority in the House of Representatives. It is typically perceived as more difficult for a minority government to pursue their legislative agenda. Political analysts suggest it looks as though Labor, the Greens and independents may form a progressive Senate majority.

While the dust settles, we can compare costings of the election policies of the major parties.

The projections indicate that Labor's policies would add an extra \$7.4 billion to the deficit over four years to 2025-26, when compared to the Coalition's policies. This is a fairly small difference relative to the total deficit projected by both Labor and the Coalition. Labor's election commitments would cost an extra \$18.9 billion in spending over the four years, while they also identified \$11.5 billion in savings over the same period. Shadow Treasurer Jim Chalmers advised the difference between the two budgets was comprised of spending on "childcare, investments in training and education, and investment in clear and cheaper energy". One thing is certain: sizeable deficits will remain for the coming years.

Table: Underlying Cash Balance (\$b)

	2022-23	2023-24	2024-25	2025-26	Total
Coalition	-77.9	-56.5	-47.1	-42.9	-224.5
Labor	-79.1	-58.3	-49.3	-45.2	-231.9
Difference	-1.2	-1.8	-2.2	-2.3	-7.4

Source: Pre-Election Economic and Fiscal Outlook; ALP Election Costing

While there are still many swirling uncertainties, the election result has brought climate change and the minimum wage to the fore.

The swing towards pro-climate independents and the Greens will put pressure on Labor to take stronger action on climate change. Labor campaigned on cutting greenhouse gas emissions by 43% by 2030 – more than the Coalition's target of 26 to 28%. Both parties have committed to reaching net zero by 2050. There are significant and rising economic costs from more frequent and severe

natural disasters associated with climate change.

Millions of Australians are potentially in for a bigger pay rise under the Labor Government. During the election campaign, Anthony Albanese stated that his Government would make a submission to the Fair Work Commission to raise the minimum wage by 5.1%; in line with the latest annual growth rate of headline inflation. As of July 2021, the national minimum wage is \$20.33 per hour. The Commission reviews the minimum wage annually, with the change usually coming into operation from 1 July. Cost-of-living pressures are weighing on the outlook for spending despite the strength of the labour market. The squeeze on household budgets is likely to be more acute for lower-income households.

Data Previews

Turning to this week's data, we begin to receive some of the key inputs for March quarter GDP, to be released on 1 June.

We expect construction work in the March quarter increased by 0.5%, following a 0.4% contraction in the December quarter, although there is a wide range of uncertainty around this estimate. Construction in 2021 was bolstered by low interest rates, the HomeBuilder program and additional public works. The first quarter of 2022 was punctuated by disruptions, with first the Omicron surge and then poor weather conditions and flooding in parts of NSW and Queensland. We expect these factors will temper the post-Delta reopening boost.

Data on private capital expenditure for the March quarter will also be published. We project a 1.1% increase in the quarter, alongside the optimistic mood amongst businesses, supported by the ongoing reopening boost and generous tax incentives. Capital expenditure grew 1.1% in the December quarter. We expect the March quarter gain to be driven by higher equipment spending.

The capital expenditure release will also include an update on spending plans, which we expect will continue to point to solid growth in investment over the coming years. The latest survey was conducted in April and May, and so is likely to indicate that some investment has been pushed from 2021-22 into 2022-23. We expect the shift has been underpinned by weather and covid disruptions, as well as challenges sourcing materials and labour. We project that Estimate 2 for 2022-23 will be around \$123 billion, representing an 8.5% increase on Estimate 2 from a year ago.

Finally, nominal retail sales data for April will be released later this week. We have pencilled in a 1.3% gain in the month, although there is a lot of uncertainty over where the number will land. An ongoing boost from the relaxation of restrictions still appears to be playing out, given the notable uplift in spending on discretionary items in recent months. Plus, the jobs market is very strong, with the unemployment rate at its lowest level in nearly 50 years. Some households have also accumulated savings buffers, which could help support spending. But on the other hand, consumer sentiment has faltered alongside the prospect of higher interest rates and mounting cost-of-living pressures. The squeeze on budgets is likely to be more acute for lower-income households. Typically, they spend more of their income on essential goods and have smaller saving buffers.

Reserve Bank

We've heard a lot from the Reserve Bank in recent weeks and we'll hear a bit more this week in the form of speeches from two senior officials. Markets will be looking for clues on what to expect for the cash rate at the upcoming June meeting, although there are unlikely to be any major revelations. Market pricing is pointing to a 25 basis point hike in June, although some investors are expecting a 40 basis point move. Pricing for the end of this year has unwound from where it was earlier this month with markets now expecting a cash rate at the end of this year closer to 2.50% compared with 3.00% earlier this month. Assistant Governor Chris Kent is delivering a speech

titled 'From QE to QT – The next phase in the Reserve Bank's Bond Purchase Program' and Assistant Governor Luci Ellis is speaking at the Urban Development Institute of Australia National Conference.

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Forecasts

End Period:	2022				2023		
	Close (20 May)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.35	0.75	1.25	1.75	2.00	2.25	2.25
90 Day BBSW, %	1.04	0.95	1.45	1.95	2.20	2.45	2.45
3 Year Swap, %	3.10	3.25	3.15	3.10	3.00	2.90	2.80
10 Year Bond, %	3.30	3.30	3.15	2.90	2.65	2.50	2.40
US Interest Rates:							
Fed Funds Rate, %	0.875	1.375	2.125	2.625	2.625	2.625	2.625
US 10 Year Bond, %	2.84	2.90	2.80	2.60	2.40	2.30	2.20
USD Exchange Rates:							
AUD-USD	0.7020	0.72	0.74	0.76	0.77	0.78	0.79
USD-JPY	127.68	129	128	126	125	124	122
EUR-USD	1.0572	1.05	1.07	1.09	1.11	1.13	1.14
GBP-USD	1.2453	1.23	1.24	1.26	1.28	1.30	1.32
NZD-USD	0.6383	0.65	0.67	0.69	0.70	0.71	0.72
AUD Exchange Rates:							
AUD-USD	0.7020	0.72	0.74	0.76	0.77	0.78	0.79
AUD-EUR	0.6640	0.69	0.69	0.70	0.69	0.69	0.69
AUD-JPY	89.631	92.9	94.7	95.8	96.3	96.7	96.4
AUD-GBP	0.5637	0.59	0.60	0.60	0.60	0.60	0.60
AUD-NZD	1.0999	1.11	1.10	1.10	1.10	1.10	1.10

	2020	2021	2022 (f)	2023 (f)
GDP, %	-0.8	4.2	4.5	2.5
CPI (Headline), %	0.9	3.5	5.6	2.6
CPI (Trimmed mean), %	1.2	2.6	4.4	3.0
Unemployment Rate, %	6.8	4.7	3.2	3.5
Wages Growth, %	1.4	2.3	3.4	4.0

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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