Federal Budget October 2022-23

Difficult decisions deferred

25 October 2022

From the Chief Economist

The Treasurer said he is prepared to make difficult decisions in difficult times, but instead we saw that he'd prefer to defer them. These deferred decisions are only going to become harder as Australians spend their pandemic savings buffers, prices go up and the Reserve Bank slows the economy.

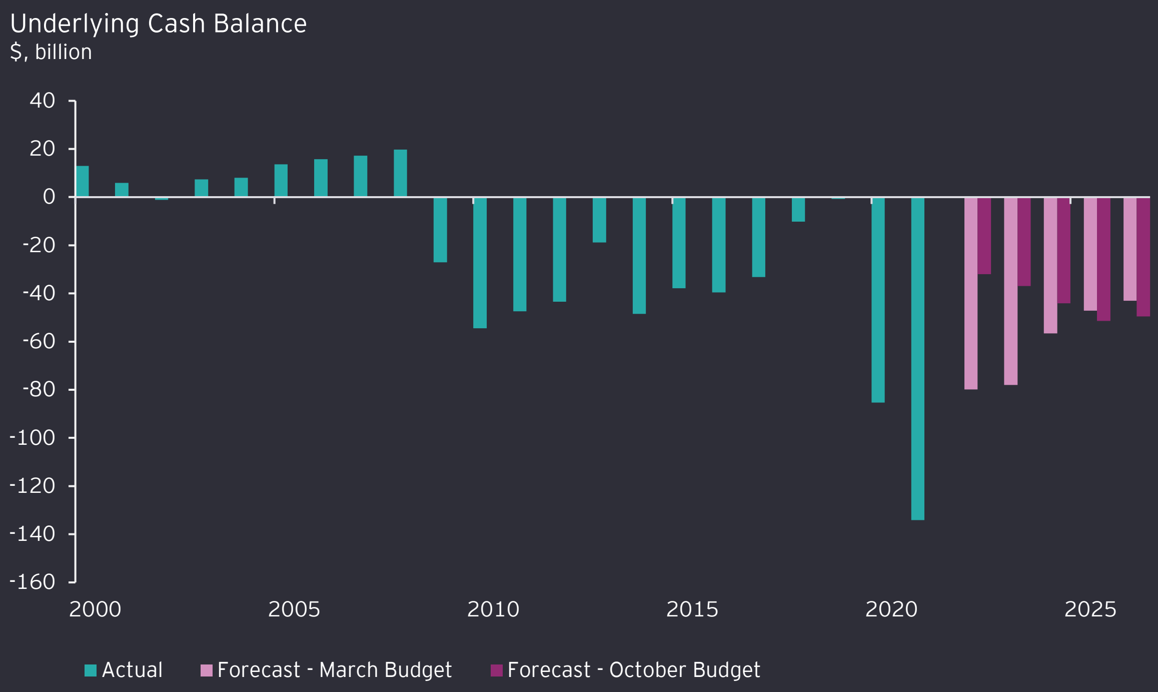
The ferocity of the inflation problem – which has been confirmed in the Budget by upgraded inflation forecasts – meant the Government could not add net spending and risk increasing price pressure. The Budget has, accordingly, been carefully curated to ensure new policy spending did not fall into the current financial year when the inflation risk is most acute. Only a net $1.6 billion was added to the policy spend in 2022-23 and $130 million to direct capital spending. But stimulatory policy flows again from 2024-25, when the forecasts safely park inflation in the Reserve Bank's 2-3 per cent target band.

The underlying cash balance expectations for the current and next financial year provided a much-needed cushion, showing huge improvements from the March Budget due mainly to better than expected commodity prices and a strong labour market. That also bought down net debt.

The Government hasn't made the Reserve Bank's job harder with fiscal policy in this Budget, but neither has it done what we had hoped – and what the economy needs – which is tighten policy and remove some inflationary pressure. Dive in to capture our key takeaways in ten charts.

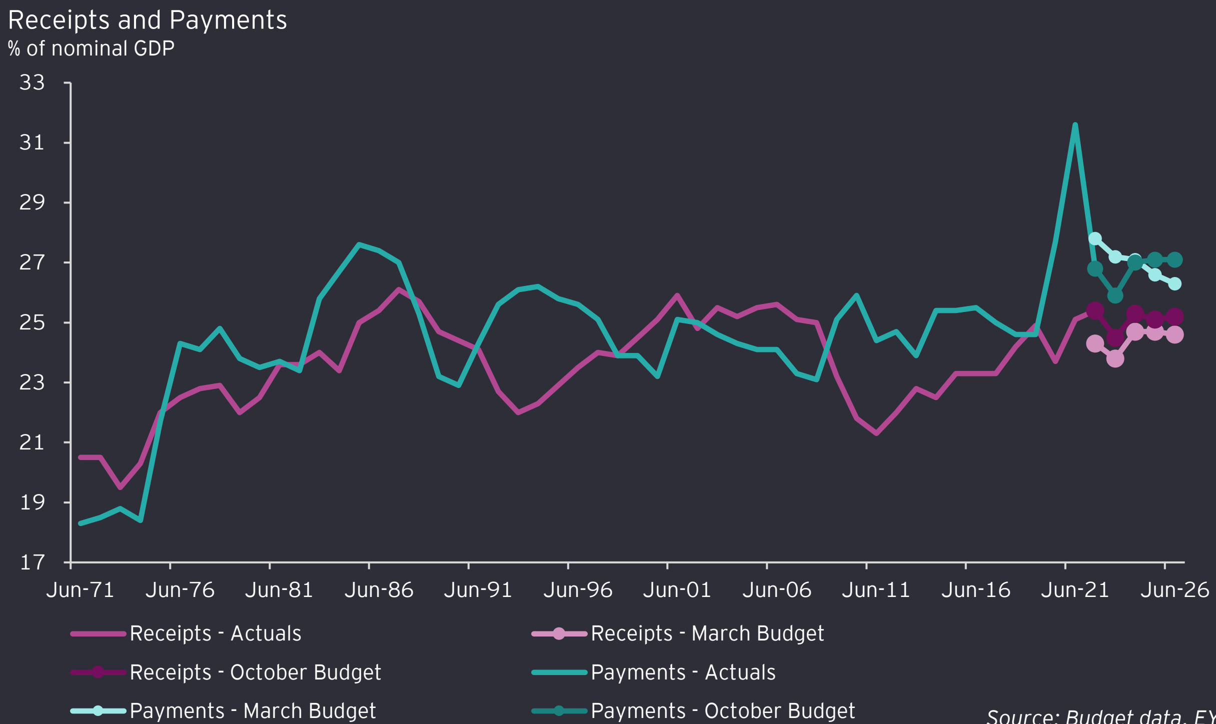
Cherelle Murphy | EY Oceania Chief Economist
25 October 2022

1. Despite the strong economy resulting in a significantly improved budget bottom line, the underlying cash balance is expected to remain in deficit



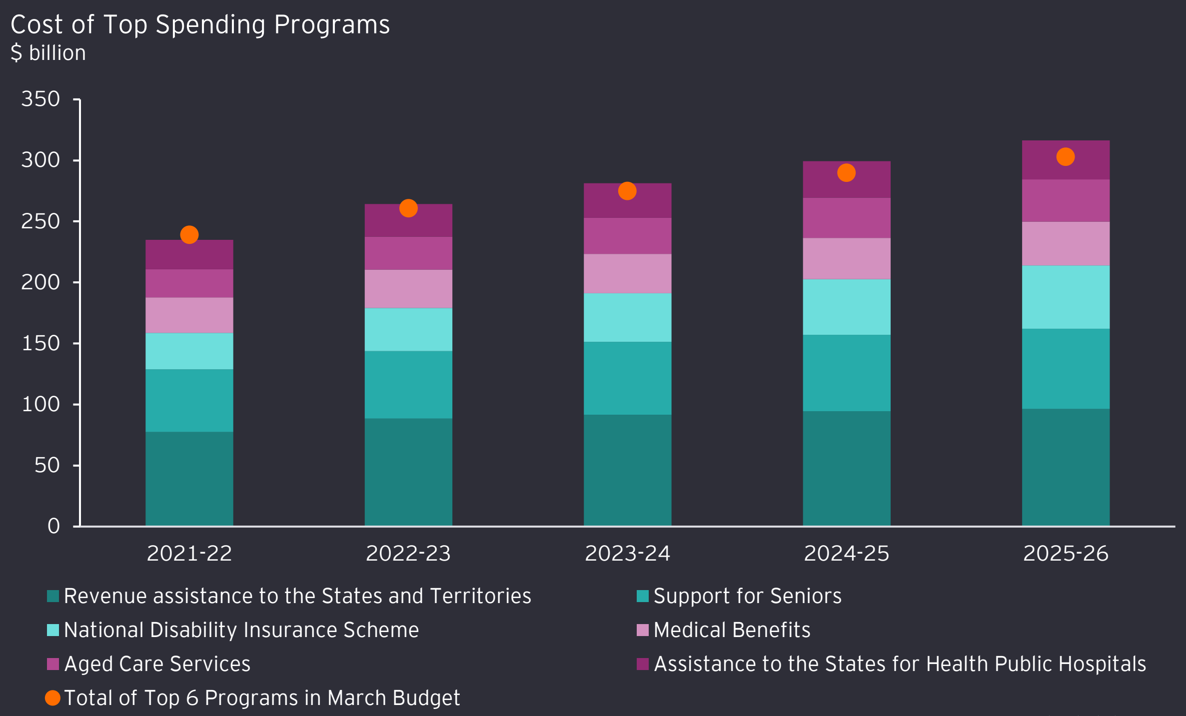
Source: Budget data, EY

2. Stronger than expected receipts and lower payments will not last as commodity prices fall and the economy is expected to slow



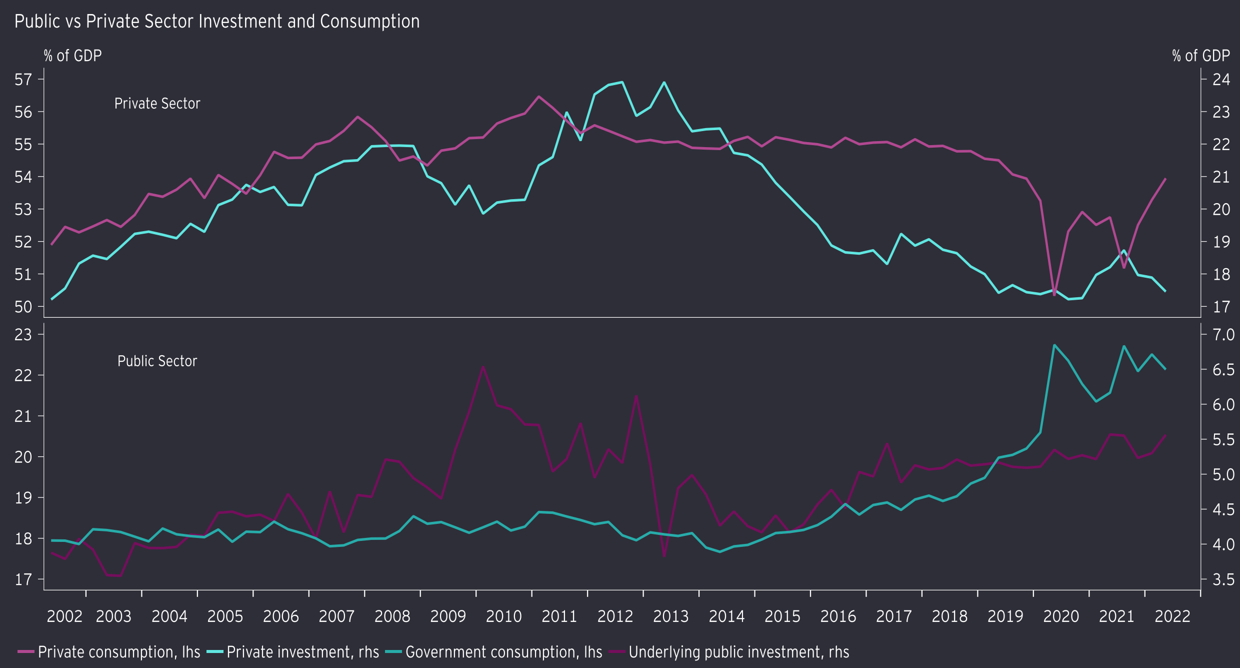
Source: Budget data, EY

3. Spending on health care and social assistance will rise faster than GDP, and has been upwardly revised since March



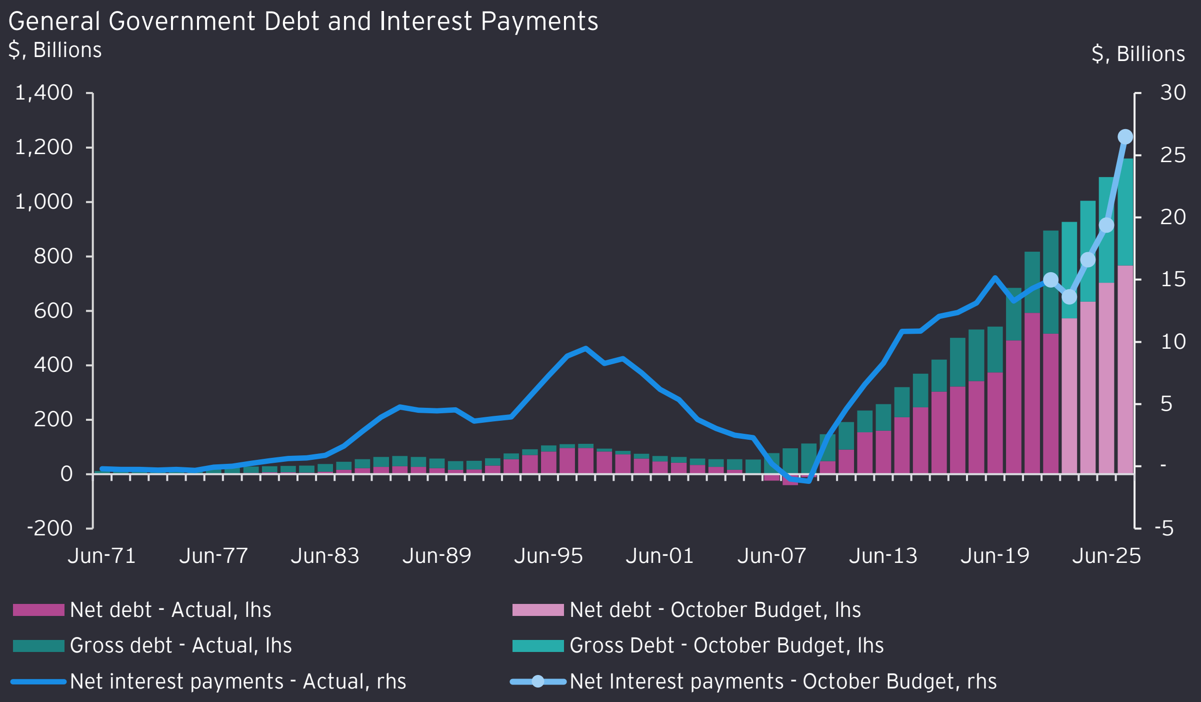
Source: Budget data, EY

4. Total public sector spending is historically high as a share of GDP



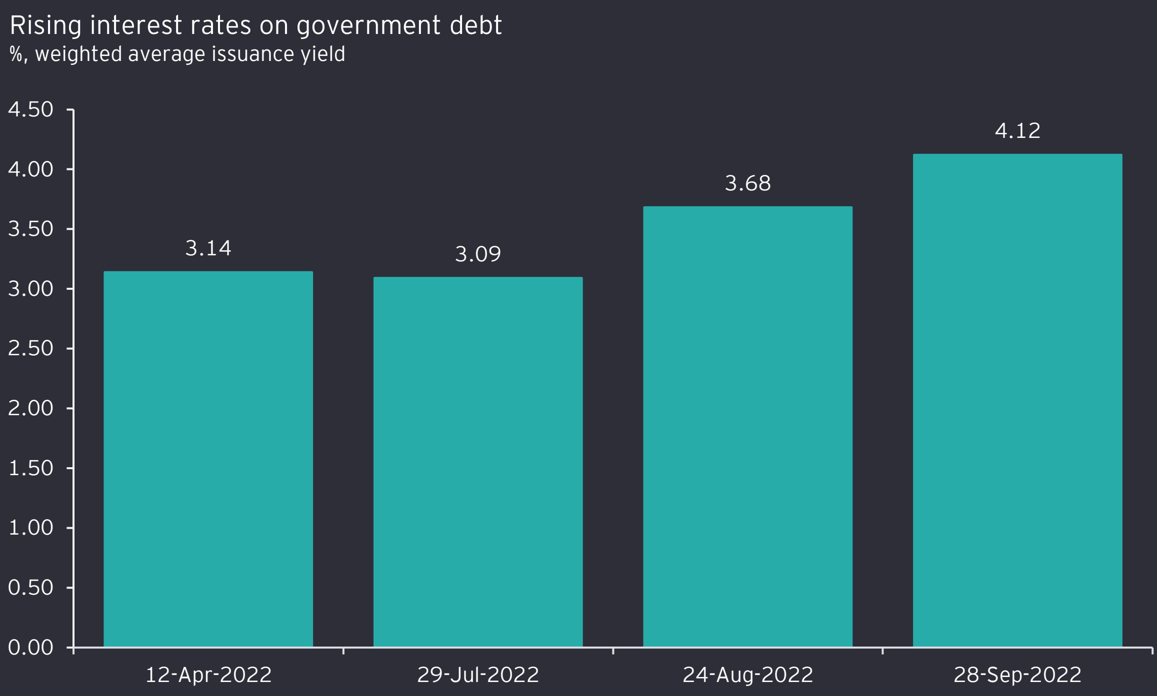
Source: ABS, Macrobond, EY

5. Government debt to top $1 trillion as interest costs rise



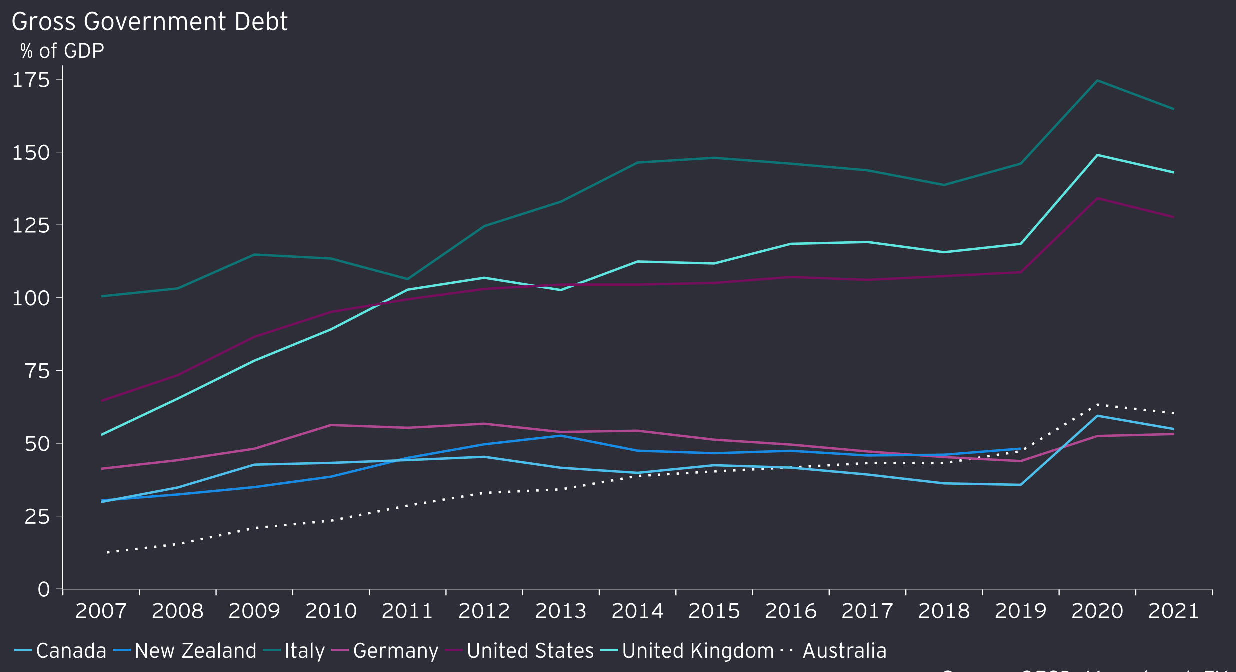
Source: ABS, Budget data, EY

6. The government now faces higher interest costs in the face of rising interest rates



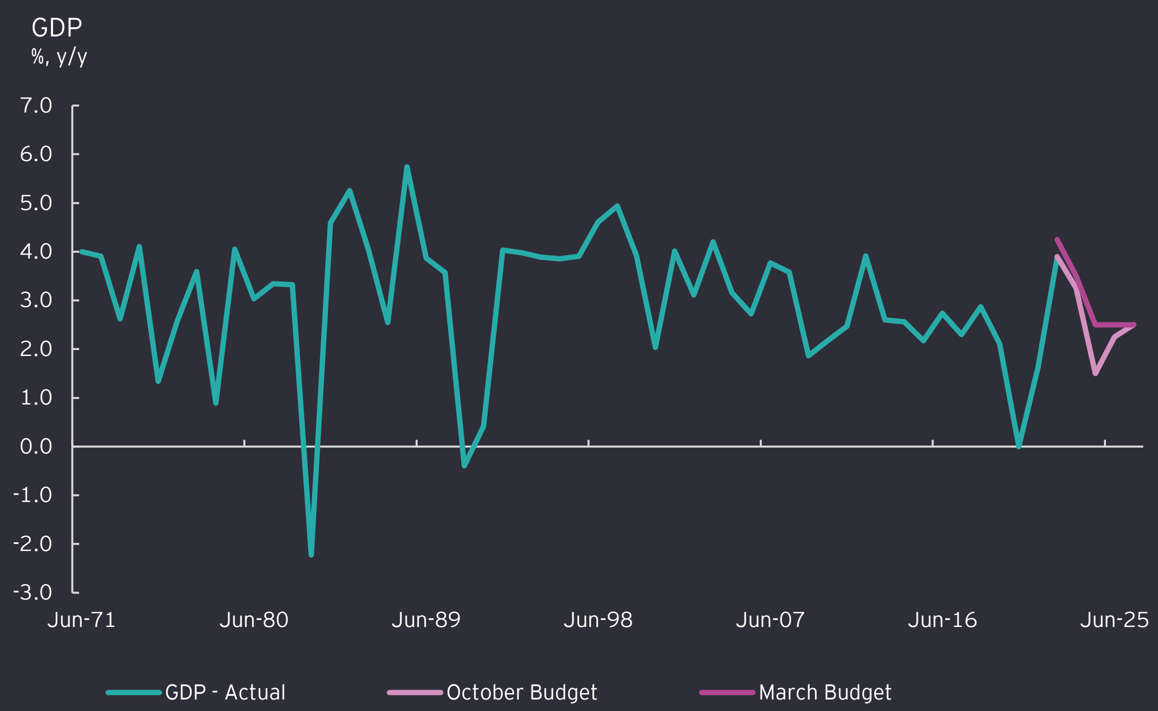
Source: AOFM, 21-Nov-2033 bond line

7. Australia's debt levels remain low compared to other developed nations



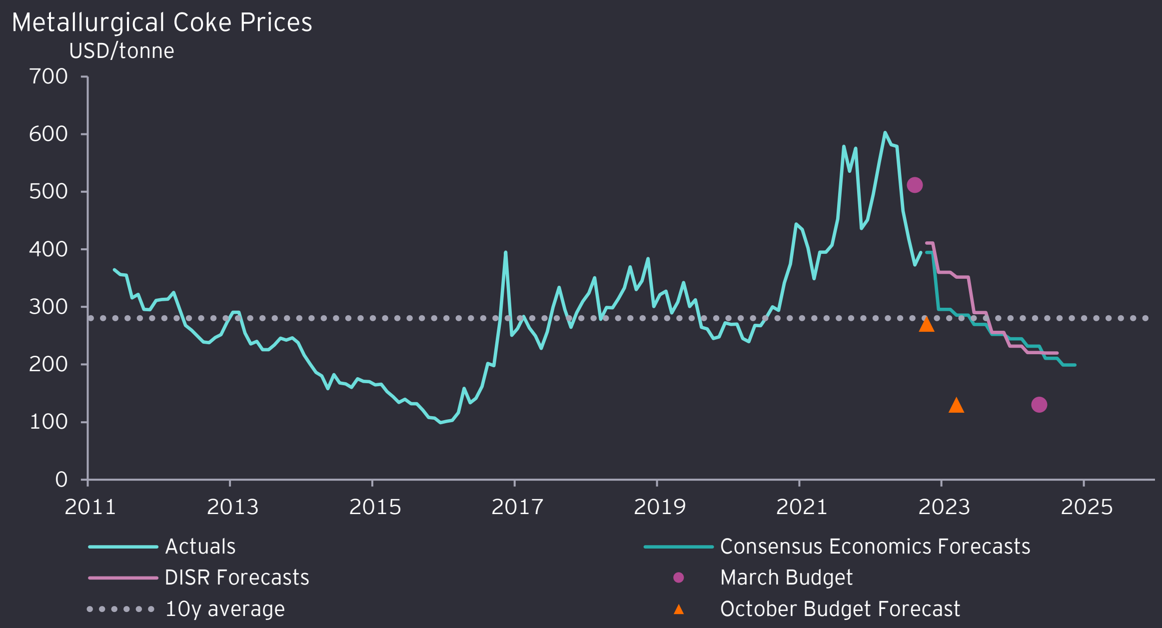
Source: OECD, Macrobond, EY

8. Economic growth has been revised down as monetary policy tightens, the international economy weakens and floods take a toll

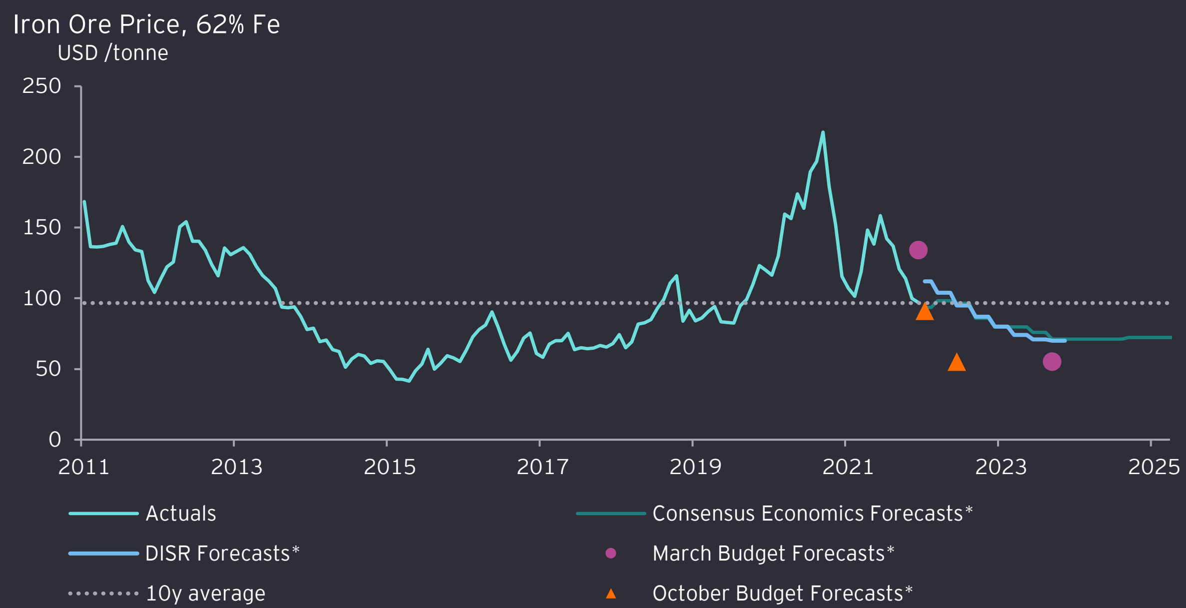


Source: ABS, Budget

9. The Government continues to conservatively forecast commodity prices



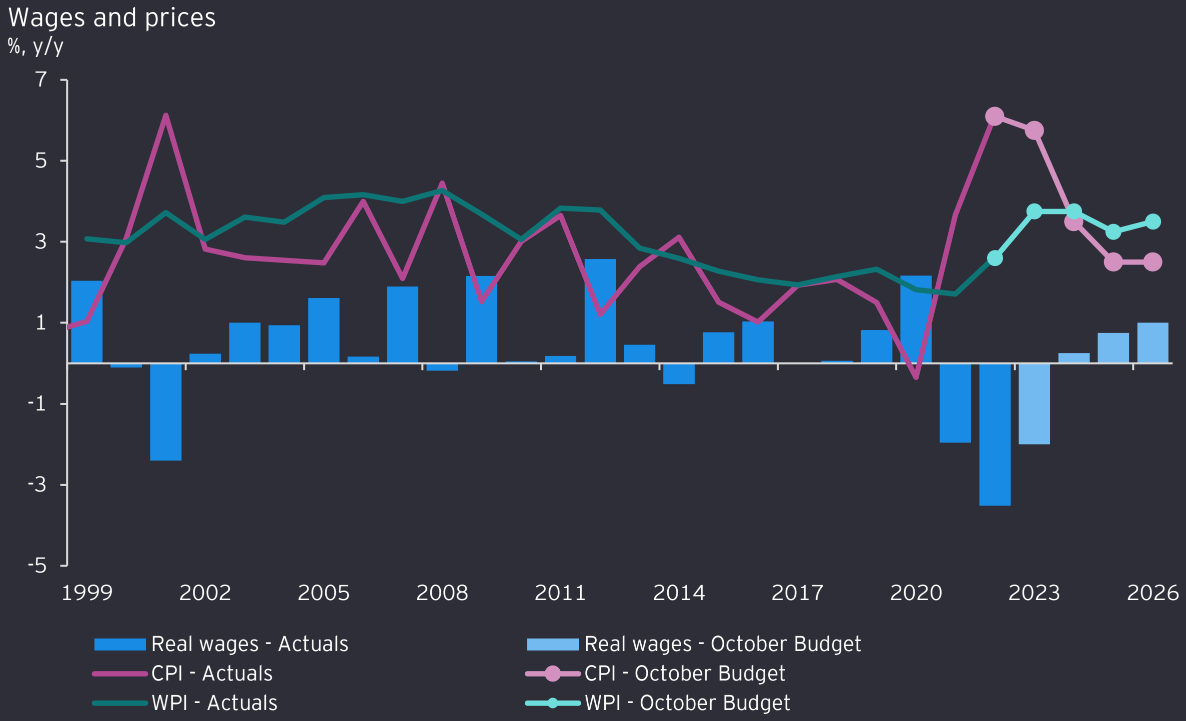
Source: Dalian Commodity Exchange, Consensus Economics, Department of Industry, Science and Resources (DISR), Commonwealth and QLD Budget Papers, EY



* Consensus Economics, DISR and Commonwealth Treasury forecast free on board (FOB) instead of cost, insurance and freight (CIF) prices.

Source: China Iron & Steel Association, Consensus Economics, Department of Industry, Science and Resources (DISR), Commonwealth and WA Budget Papers, EY

10. Wages forecasts are revised up mildly due to the tight labour market and high inflation is expected to persist for longer



Source: ABS, Budget data, EY

EY can help

The future is uncertain, but the path there doesn't need to be.

EY Oceania Economics is an economic advisory practice specialising in applied quantitative analysis, combining the elements of Economics, Policy and Strategy to provide insights through modelling and data visualisation.

We have a deep knowledge of the Australian economy and the business environment, offering a unique perspective in a rapidly changing world.

We deliver:

- Economic scenario modelling and economic impact assessments
- Macroeconomic modelling and forecasting
- Tailored Economic Insights
- Bespoke economic models and tools
- Deep labour market modelling capabilities
- Economic Policy Development
- Climate change modelling

For updates and analysis, and to subscribe, visit www.ey.com/en_au/economics

Key contacts

Cherelle Murphy | Oceania Chief Economist | Director, EY Australia | Canberra
cherelle.murphy@au.ey.com

Paula Gadsby | Senior Economist
EY Economics | Perth
paula.gadsby@au.ey.com

Charlotte Heck-Parsch | Senior Economist
EY Economics | Brisbane
charlotte.heck-parsch@au.ey.com

Steve Brown | Partner, EY Australia
EY Economics | Canberra
steve.brown@au.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

ey.com

EYSCORE 002671-22-AUNZ