Budget 2013: *Honey, who ate the surplus?*

www.politicalcartoonsaustralia.com

http://nicholsoncartoons.com.au

Craig James,

Chief Economist, CommSec, May 2013

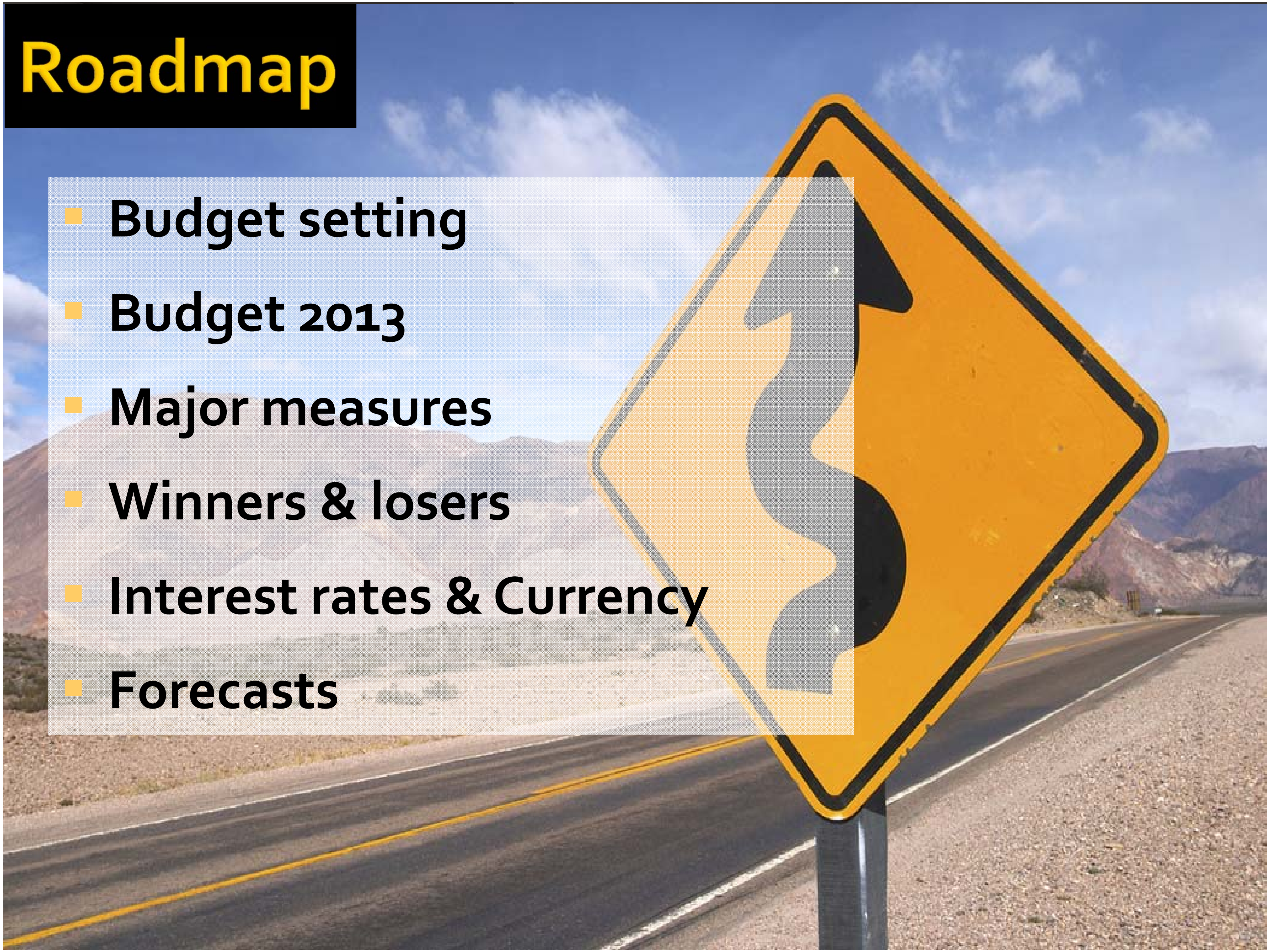
Important Information

This presentation has been prepared without taking account of the objectives, financial situation or needs of any particular individual. Before acting on the information in this seminar, you should consider its appropriateness to your circumstances and, if necessary, seek appropriate professional advice.

Examples used in this presentation are for illustrative purposes only.

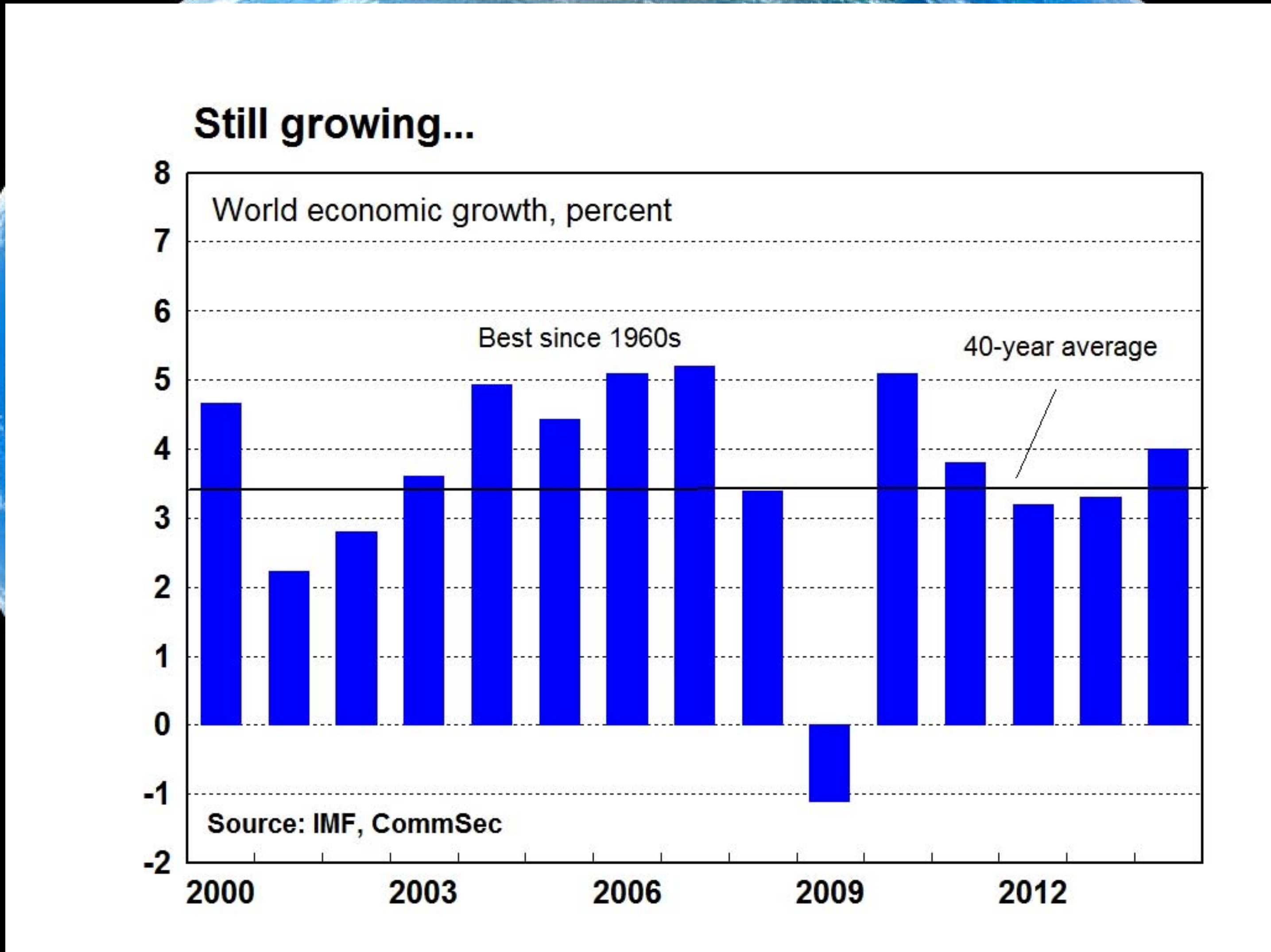
CommSec

Roadmap



- Budget setting
- Budget 2013
- Major measures
- Winners & losers
- Interest rates & Currency
- Forecasts

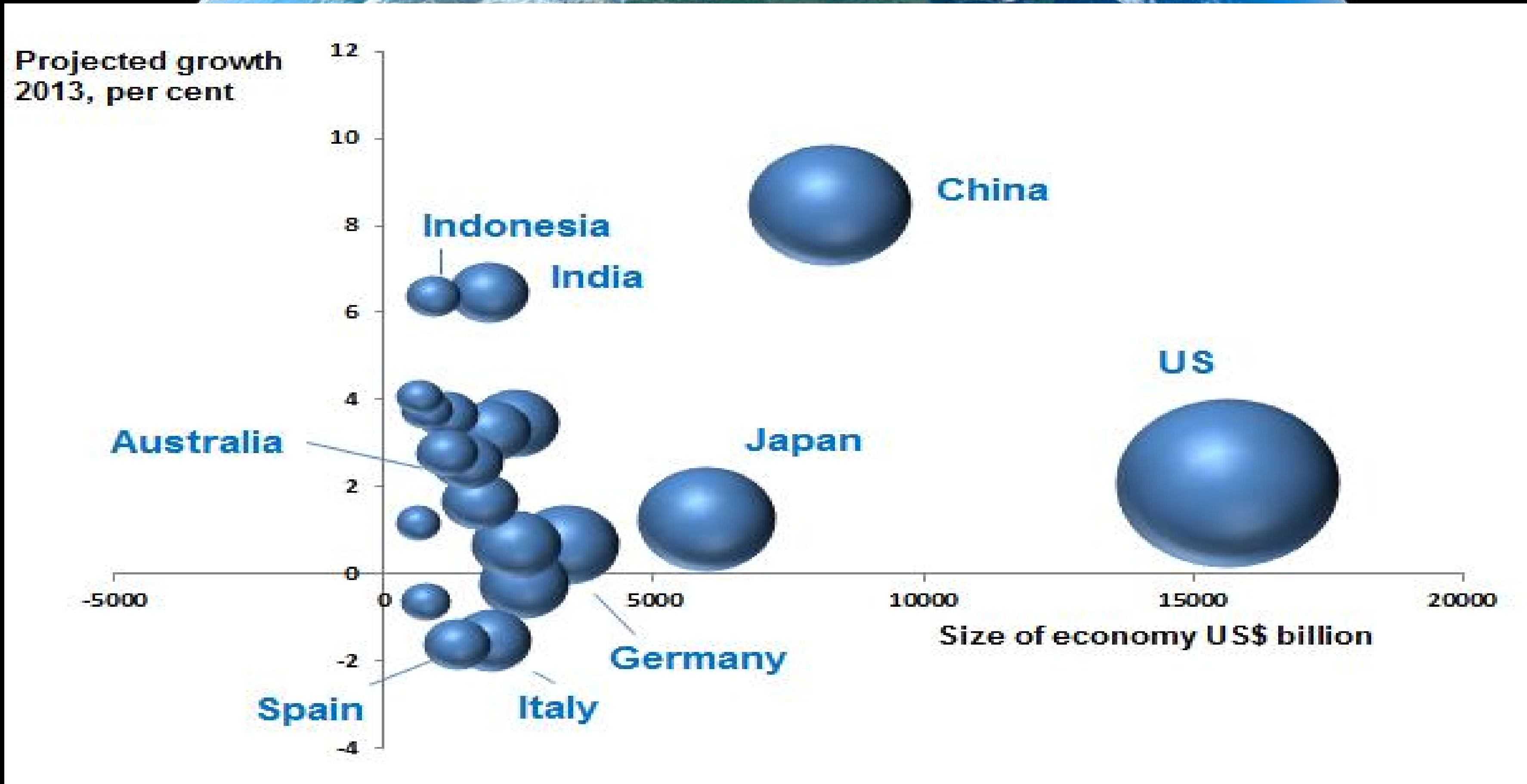
Big Picture


Still growing...
World economic growth, percent
Best since 1960s
40-year average
Source: IMF, CommSec
8
7
6
5
4
3
2
1
0
-1
-2
2000
2003
2006
2009
2012

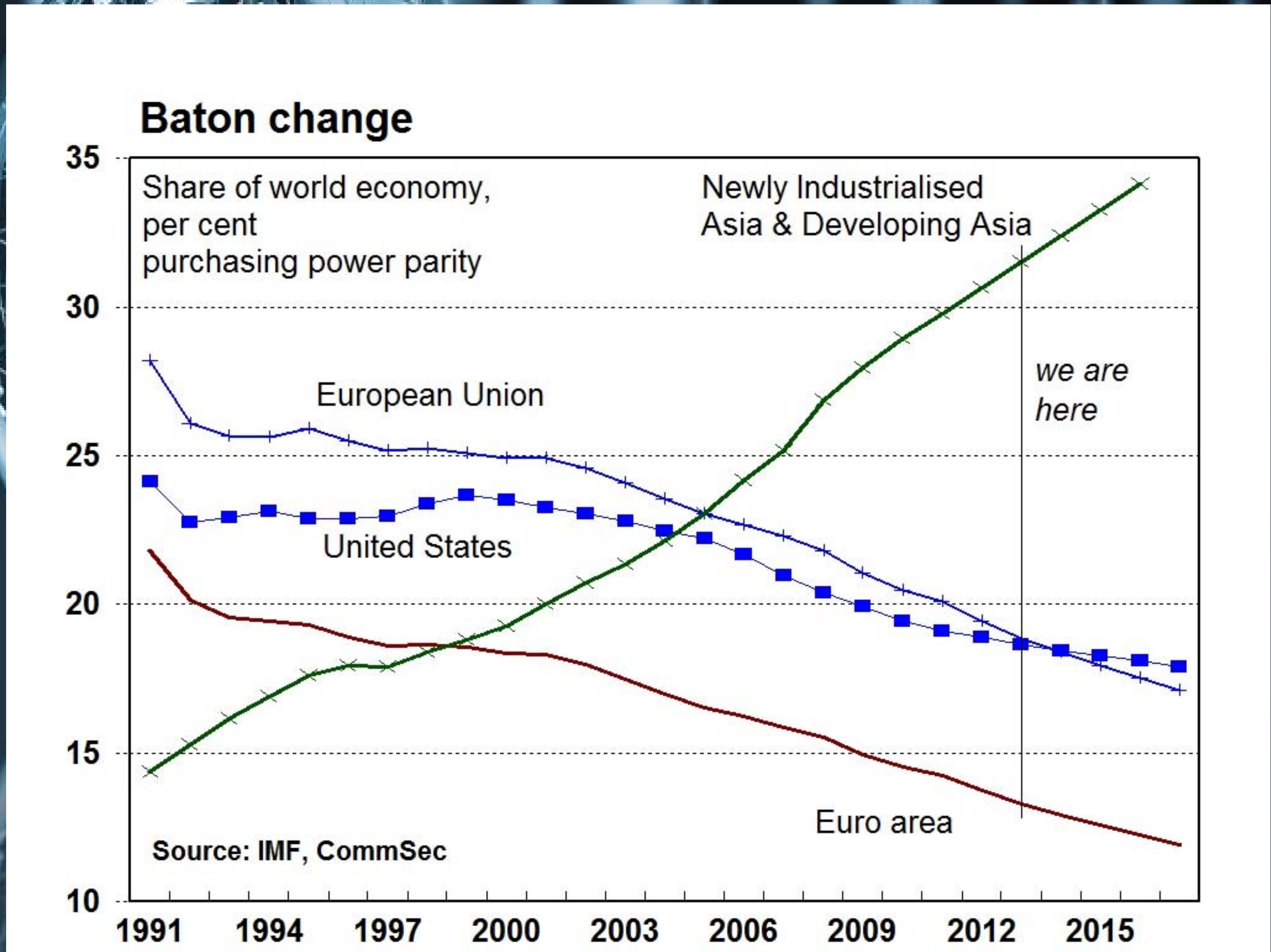
Big Picture

Biggest contributor to world growth

Australia's largest trading partner

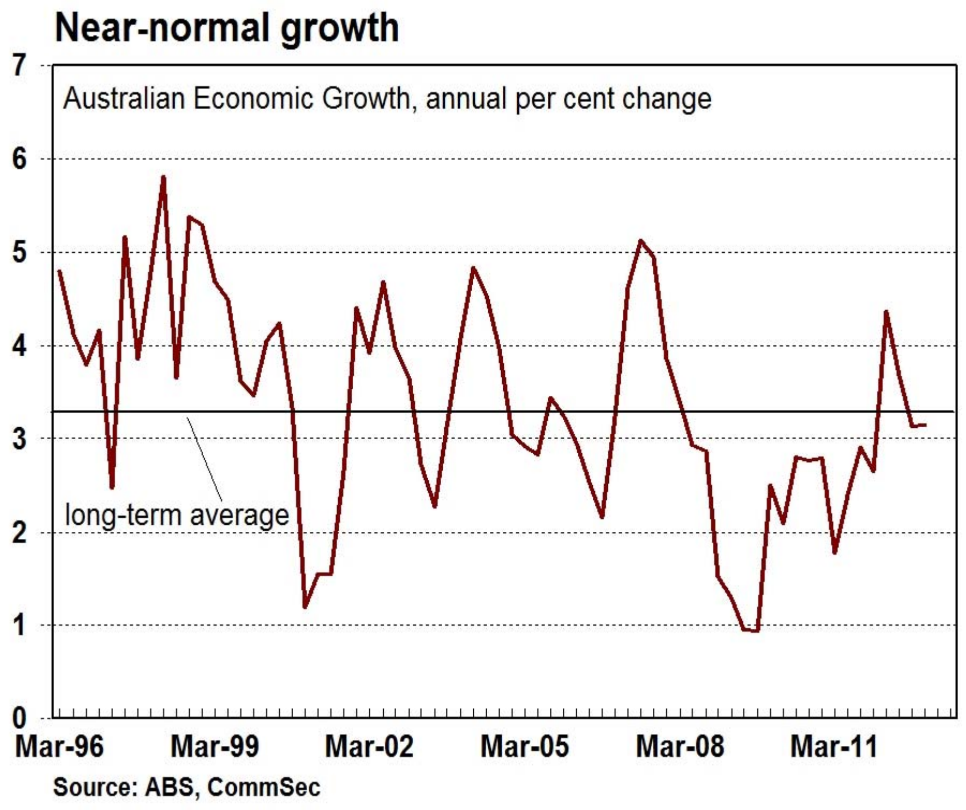


Global changes



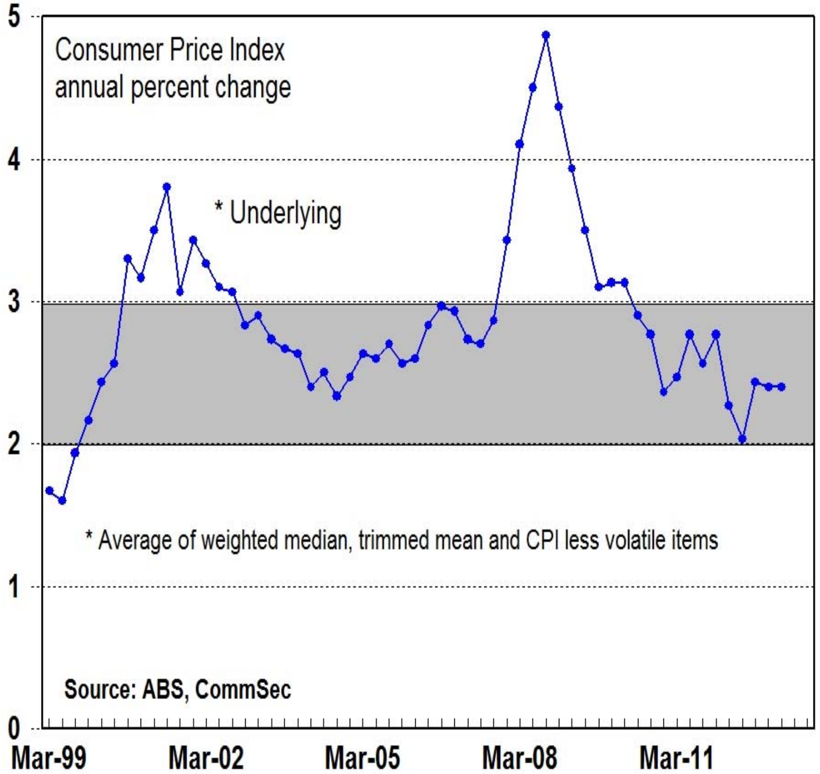
Australia

- "Normal" growth
- Inflation 2.5%
- Unemployment 5.5%
- No recession in 21 years
- Multi-speed economy

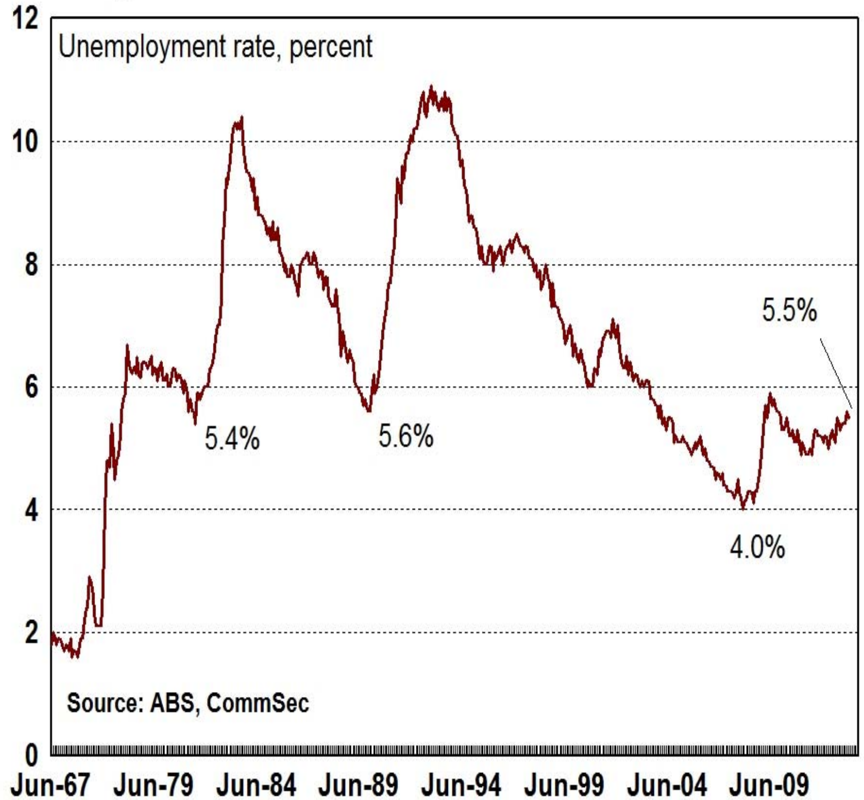


Prices & Jobs

In the zone

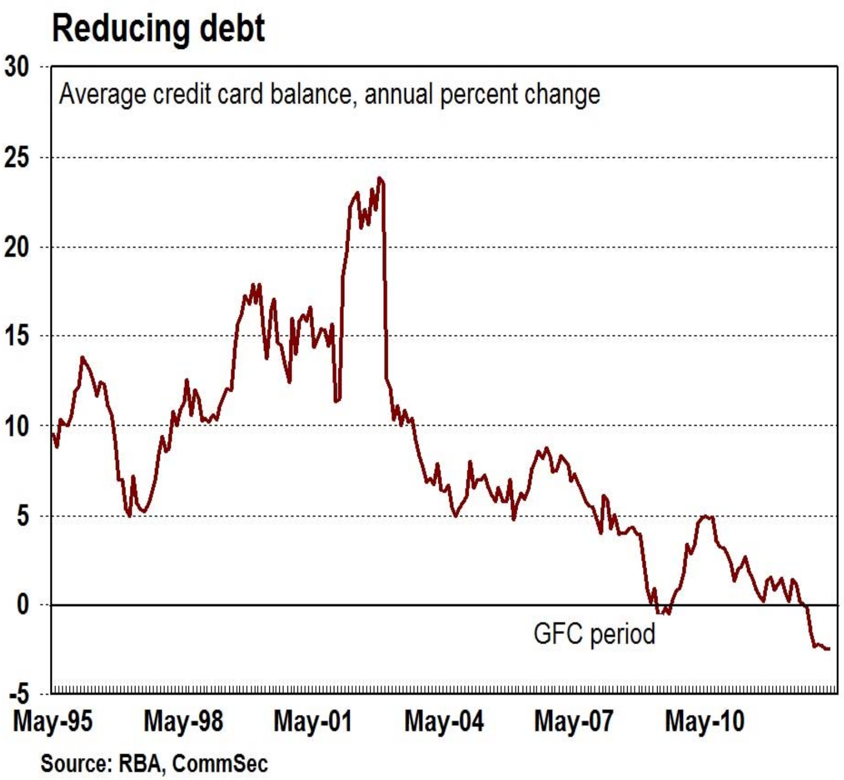


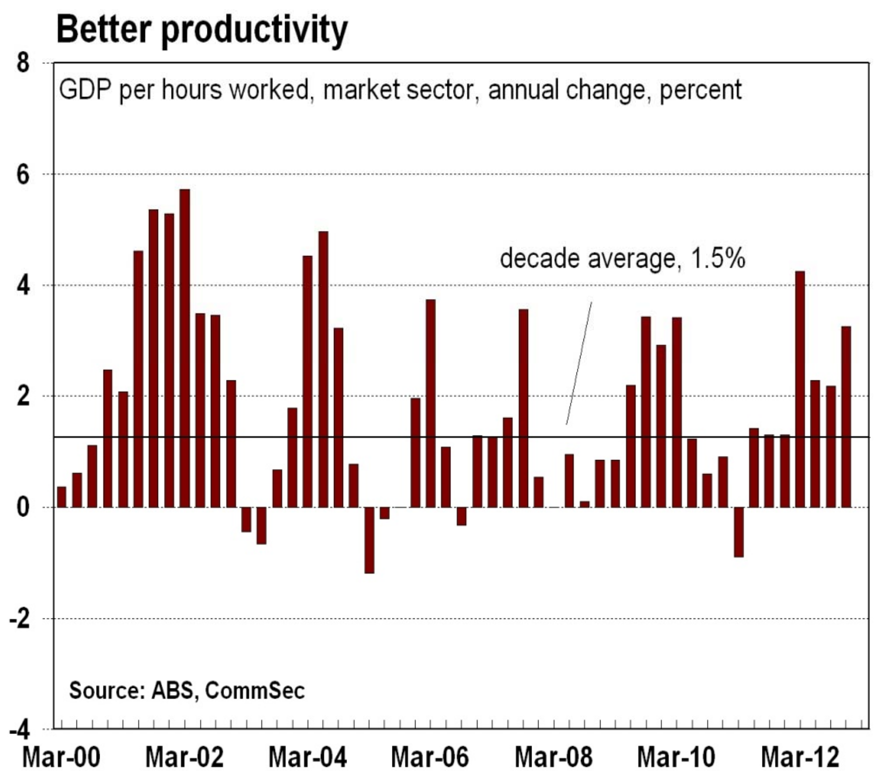
Long-run view



Changing times

- **Less debt, more savings; On-line sales; Productivity lifts; Mining takes greater share**





Main Numbers

BUDGET BOTTOM LINE

	2011/12a	*2012/13e*	*2013/14f*	*2014/15f*	*2015/16f*	*2016/17f*
Underlying Cash Balance - $B	($43.4)	($19.4)	($18.0)	($10.9)	$0.8	$6.6
% of GDP	-2.9	-1.3	-1.1	-0.6	0.0	0.4
Net Debt - $B	($147.3)	($161.6)	($178.1)	($191.6)	($191.2)	($185.7)
% of GDP	10.0	10.6	11.1	11.4	10.8	10.0

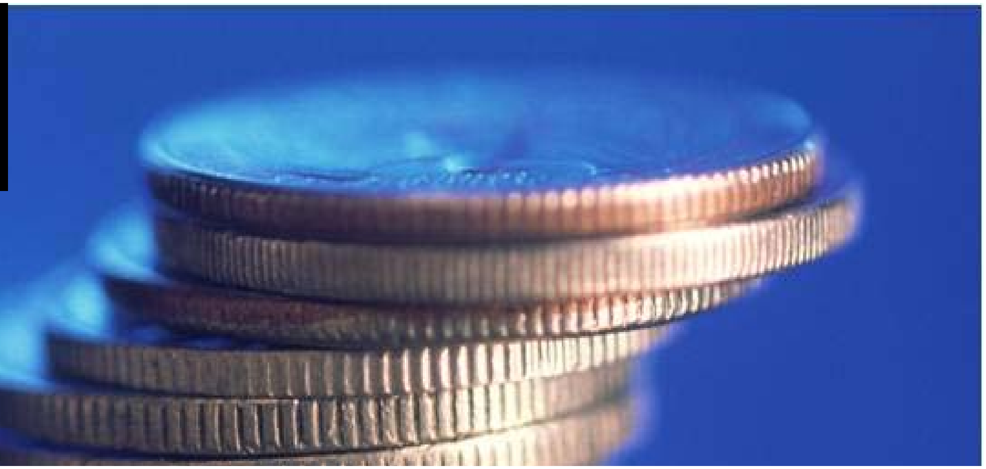
Source: Budget Papers

HOW THE FORECASTS HAVE CHANGED

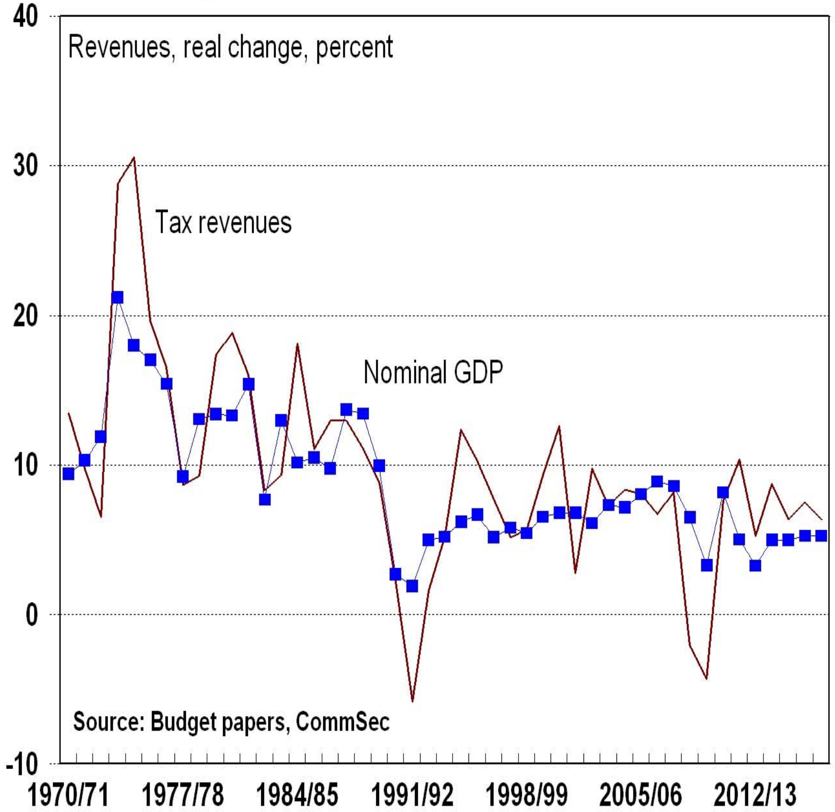
	2012/13	2013/14	2014/15	2015/16
Real GDP - May 12	3.25	3.00	3.00	3.00
Real GDP -Mid Year	3.00	3.00	3.00	3.00
Real GDP - May 13	3.00	2.75	3.00	3.00
Employment - May 12	1.25	1.50	1.50	1.50
Employment - Mid Year	1.00	1.25	1.50	1.50
Employment - May 13	1.25	1.25	1.50	1.50
Unemployment - May 12	5.50	5.50	5.00	5.00
Unemployment - Mid Year	5.50	5.50	5.00	5.00
Unemployment - May 13	5.50	5.75	5.75	5.00
Inflation - May 12	3.25	2.50	2.50	2.50
Inflation - Mid Year	3.00	2.25	2.50	2.50
Inflation - May 13	2.50	2.25	2.25	2.50
Nominal GDP - May 12	5.00	5.25	5.25	5.25
Nominal GDP - Mid Year	4.00	5.50	5.25	5.25
Nominal GDP - May 13	3.25	5.00	5.00	5.25

Source: Budget Papers

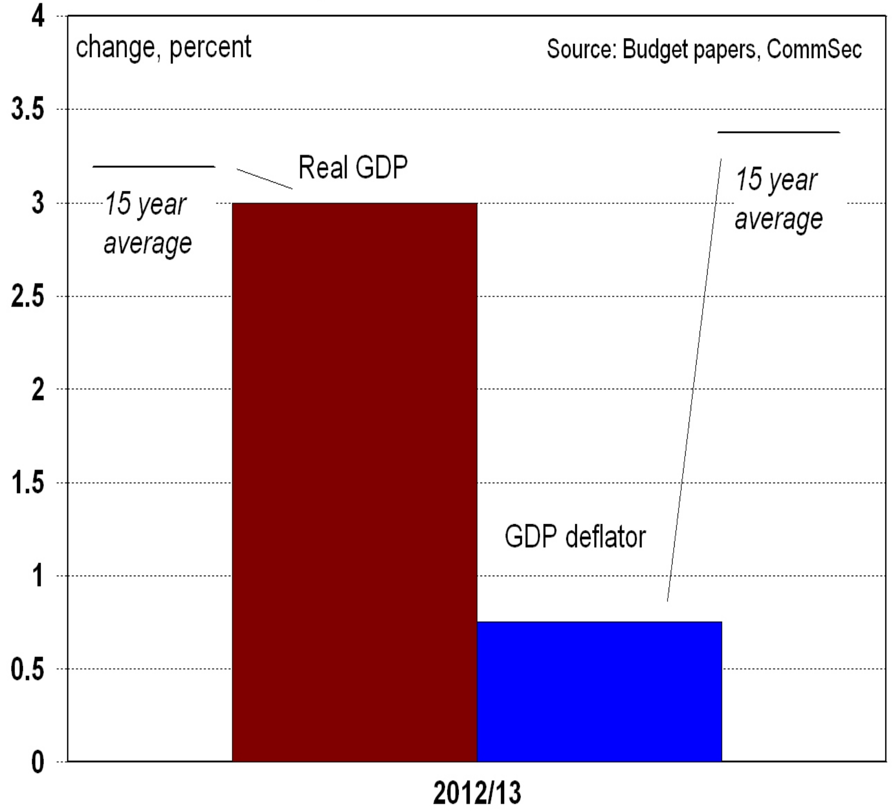
Why no surplus?



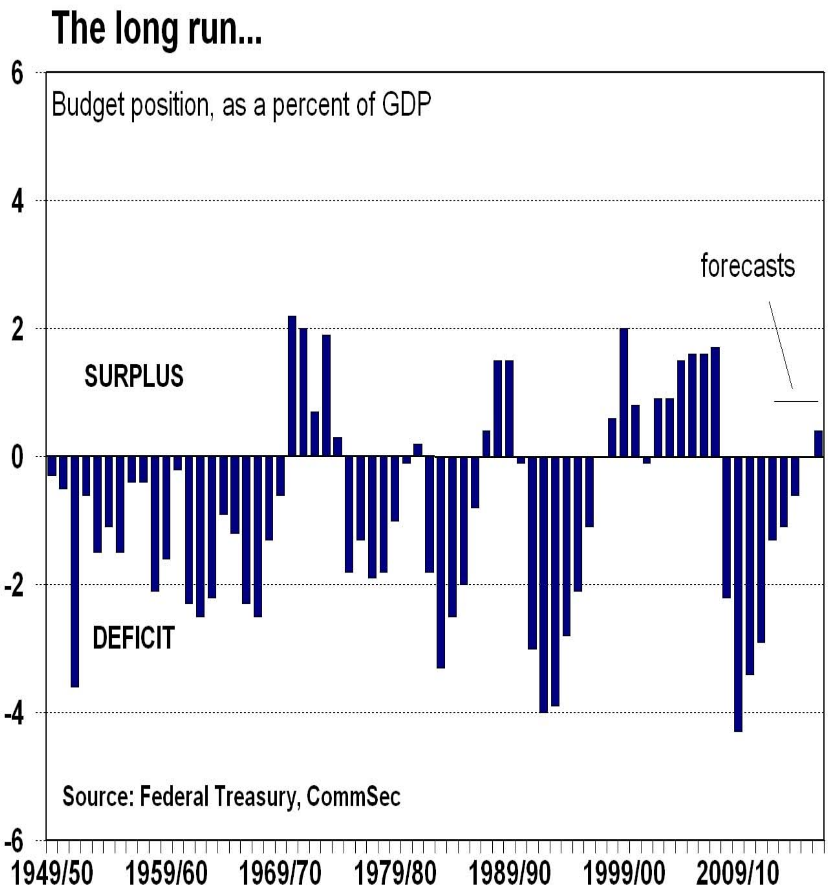
Revenue growth hit



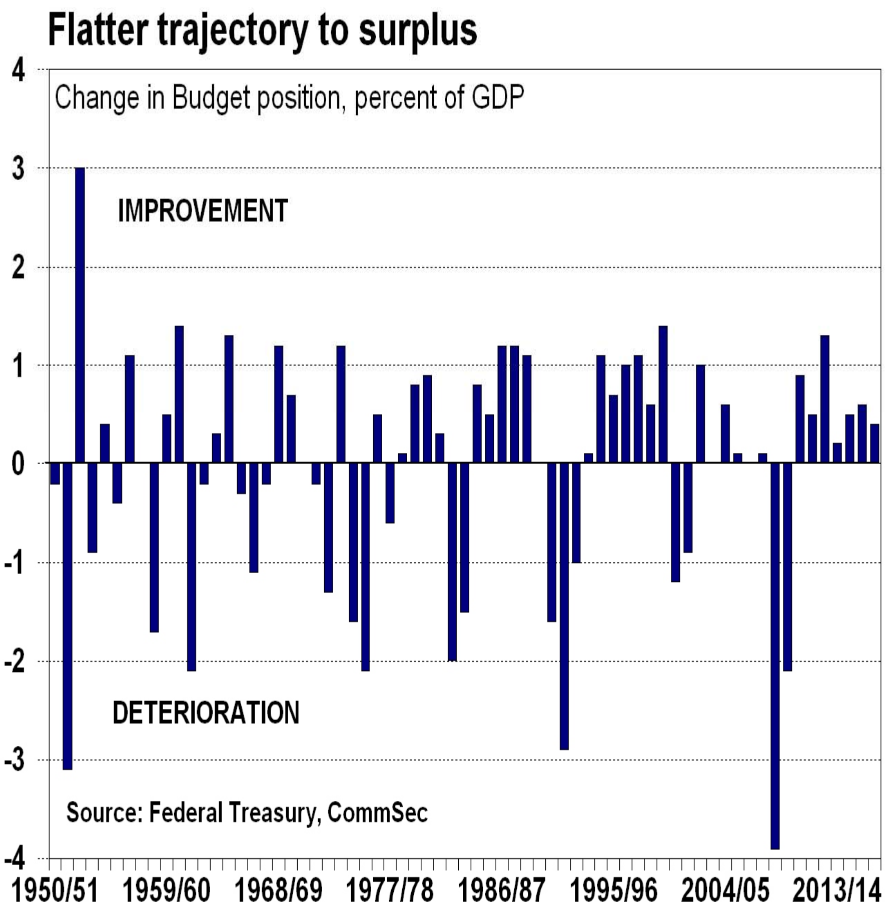
The crux of the problem



In Context



The long run...
Budget position, as a percent of GDP
forecasts
SURPLUS
DEFICIT
Source: Federal Treasury, CommSec
6
4
2
0
-2
-4
-6
1949/50
1959/60
1969/70
1979/80
1989/90
1999/00
2009/10



Flatter trajectory to surplus
Change in Budget position, percent of GDP
IMPROVEMENT
DETERIORATION
Source: Federal Treasury, CommSec
4
3
2
1
0
-1
-2
-3
-4
1950/51
1959/60
1968/69
1977/78
1986/87
1995/96
2004/05
2013/14

Major Measures

- DisabilityCare
- Spending on roads
- Gonski Education reforms
- Changes to Clean Energy package
- Removal of baby bonus
- Deferred tax cuts
- Deferred lift in aid budget
- Monthly PAYG for large tax payers

Winners & Losers

Winners:

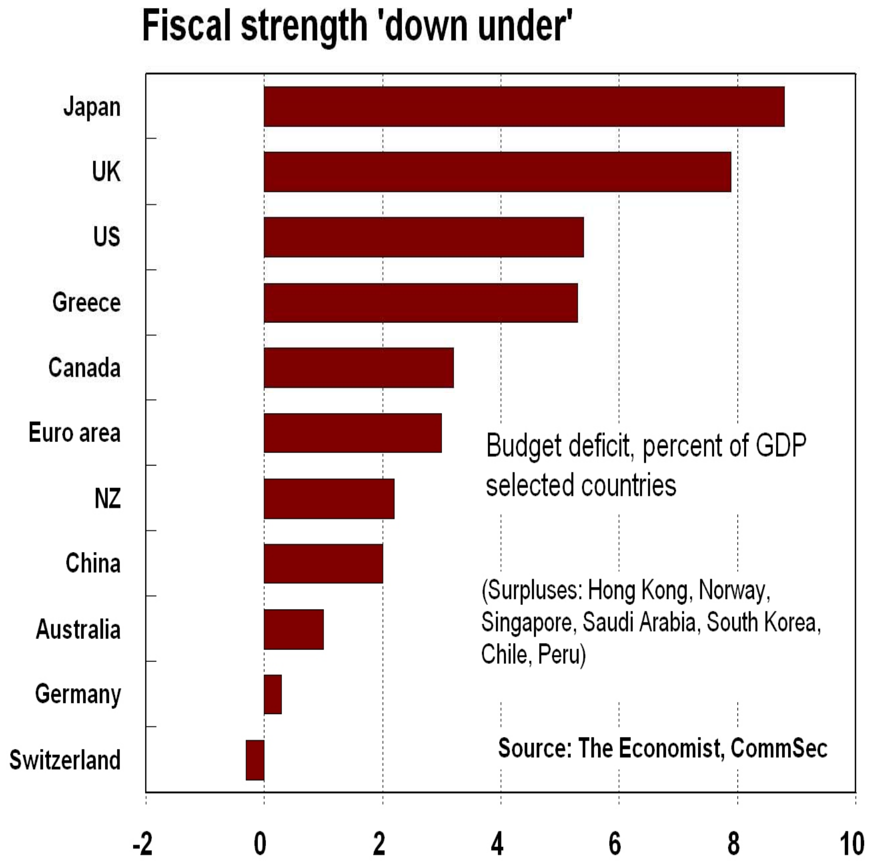
- Schools; farmers; motorists in Sydney & Queensland; road building firms; Regional Australia (roads, schools, farm finance); pharmacists

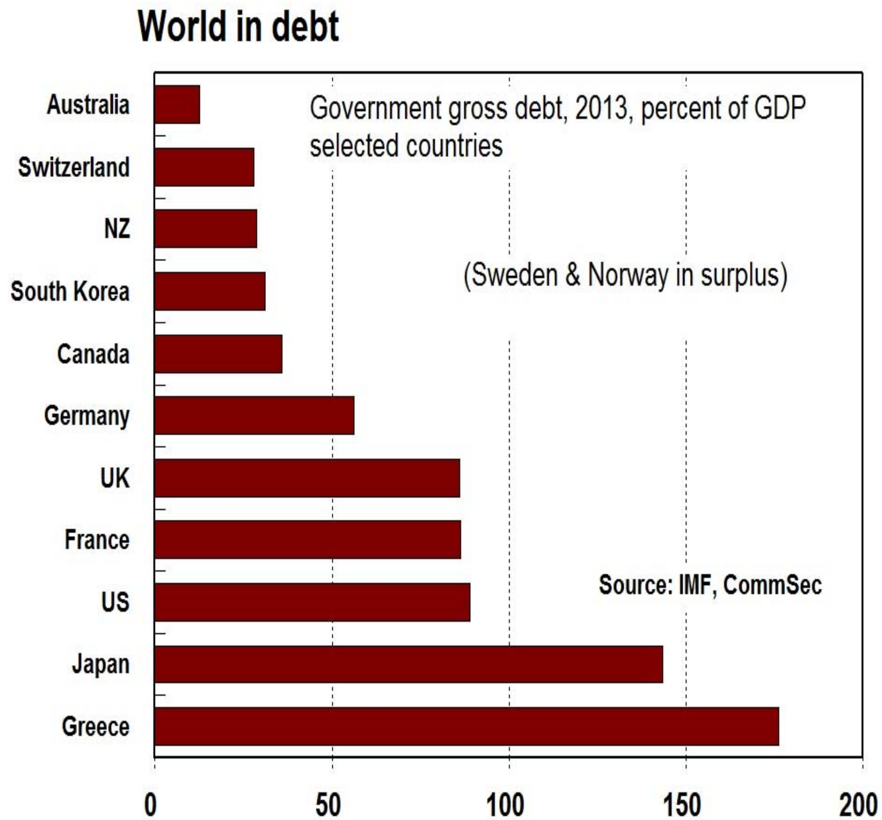
Losers:

- Taxpayers (deferred tax cuts); Uni students; Smokers; Public Servants; Couples planning a family; Big businesses; doctors

CommSec

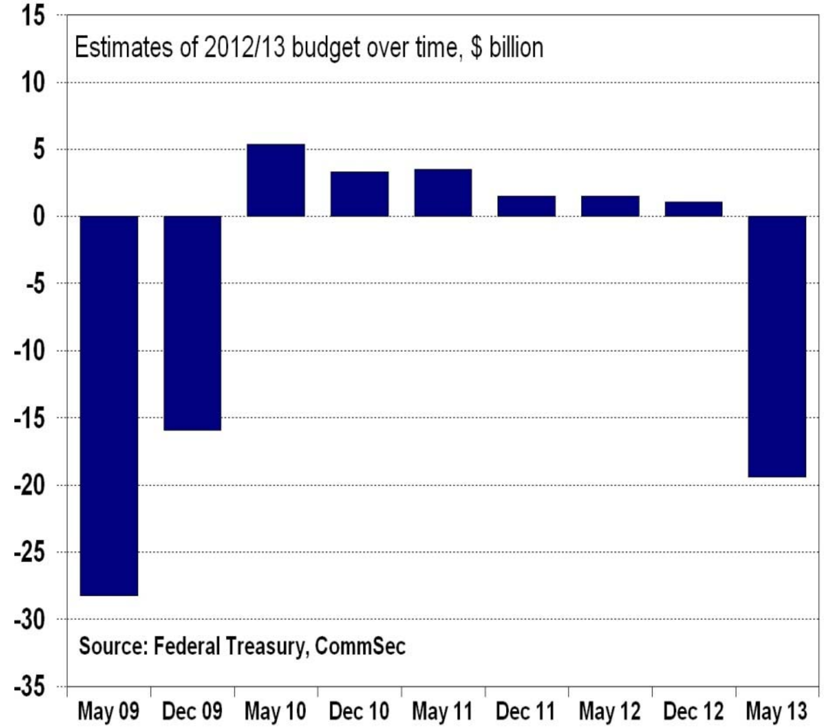
Global comparisons



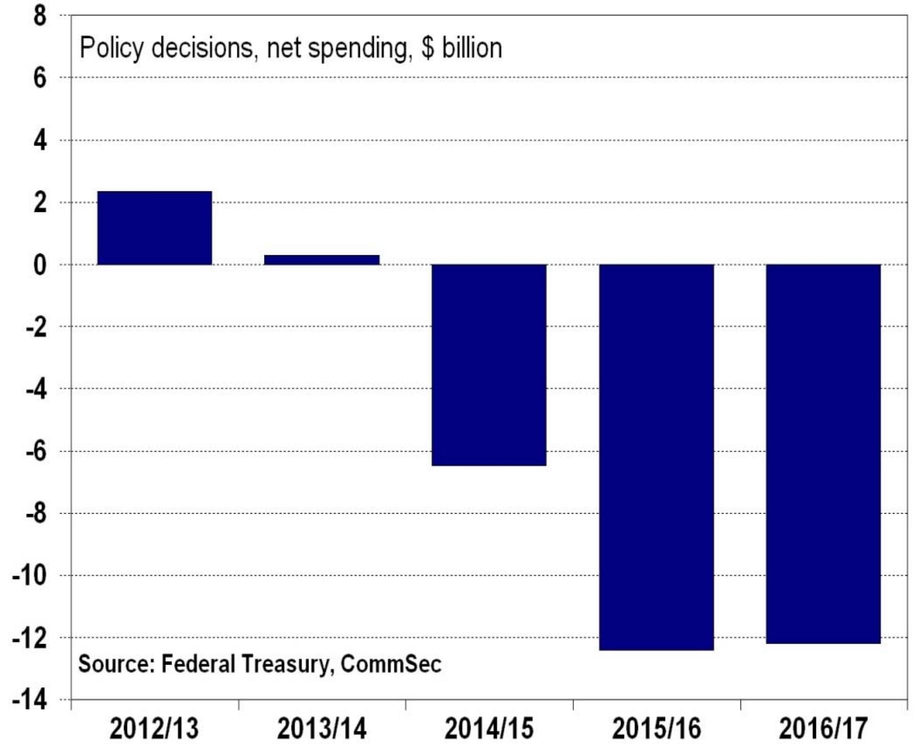


Reality check

Just a budget



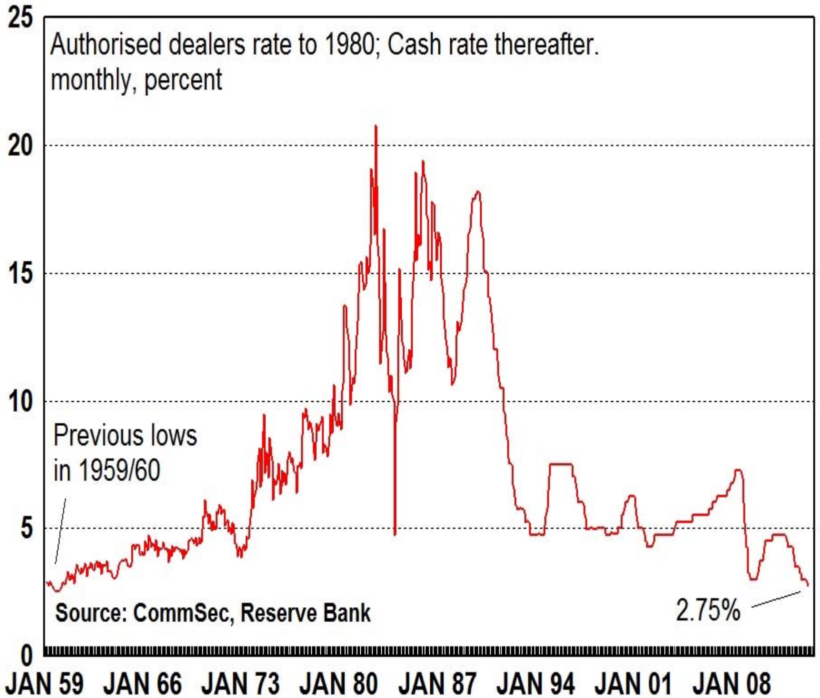
Austerity delayed?



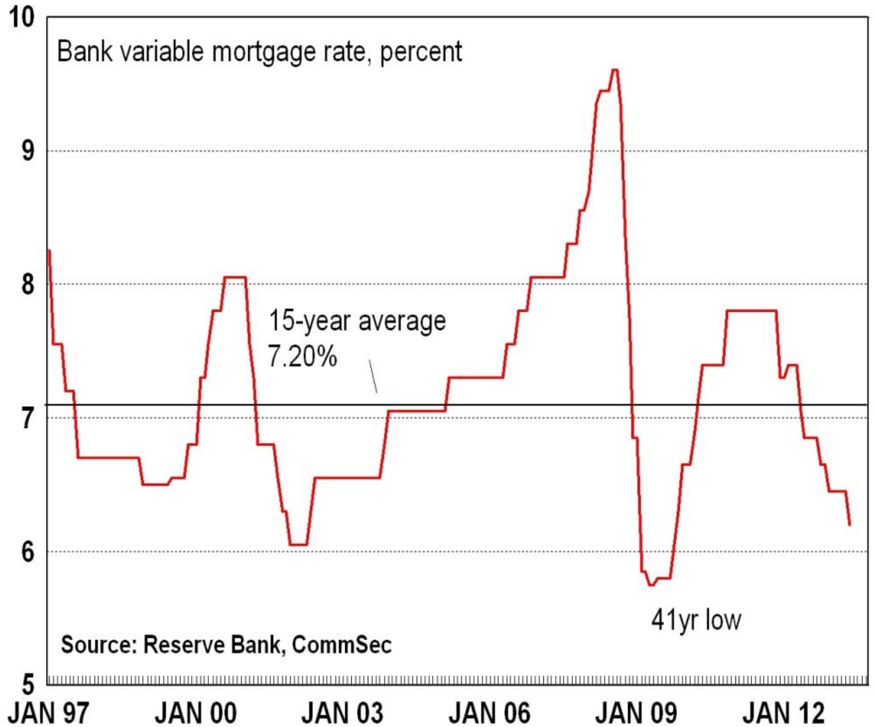
Interest rates

- Global factors, inflation, economic growth, Aussie dollar

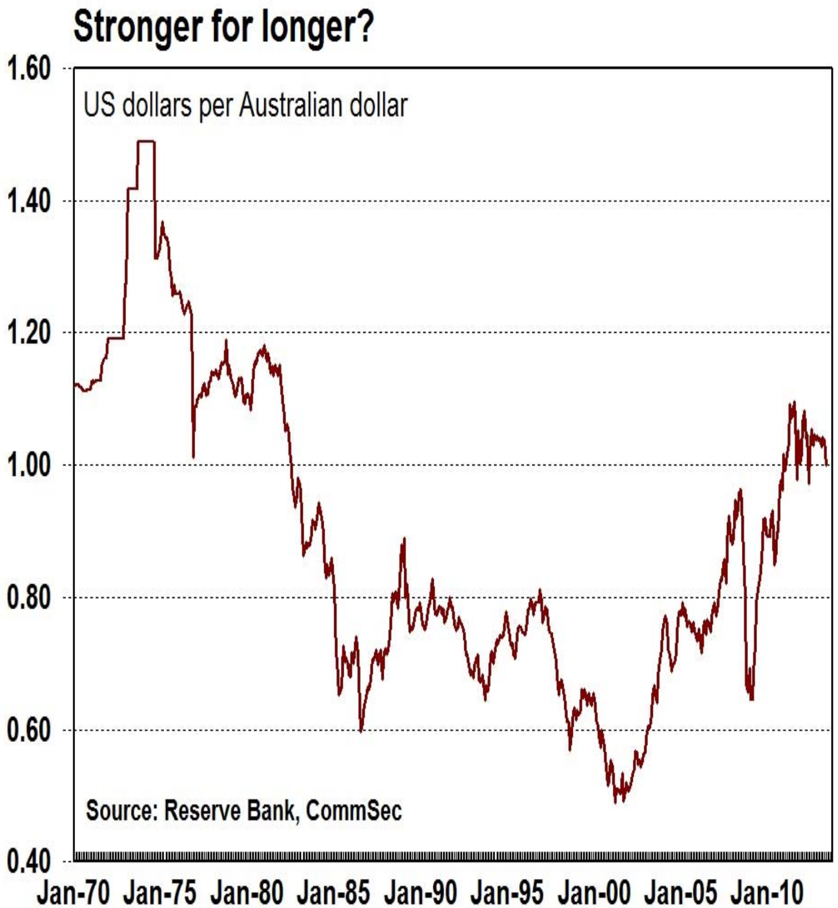
Long-term perspective

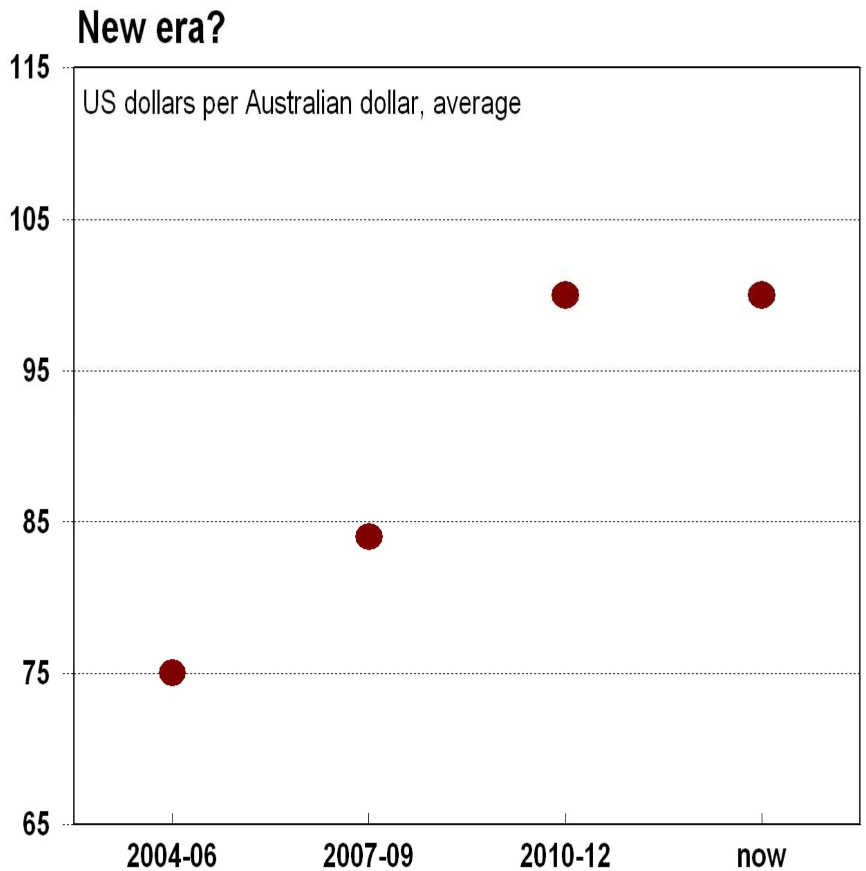


Further cuts ahead?



Strong Aussie to continue?





Forecasts

Economic growth	2.75-3.25% in 2012/13	2.75-3.25% in 2013/14
Inflation	2.5% in 2012/13	2.5% in 2013/14
Unemployment	5.25%-5.75%, end 2013	5.00-5.50%, mid 2014
Cash rate	2.50-2.75%, end 2013	2.75-3.25%, mid 2014
Sharemarket (All Ords)	5,400 points, end 2013	5,700 points, mid 2014
Australian dollar	US96-107c end 2013	US96-107c mid 2014