




# ECONOMIC INDICATORS

*Budget Special*





**“Deficit spending is simply a scheme for the ‘hidden’ confiscation of wealth.”**

Alan Greenspan  
American Economist and former Chairman  
of the Federal Reserve Board (1987 – 2006)

## FEDERAL BUDGET 2023/2024

On 9 May 2023, Treasurer Jim Chalmers handed down his second budget. Stronger foundations for a better future, a responsible budget for a more secure and better future, and responsible economic and fiscal management are some catchphrases used to market this budget to the general voting public.

## ECONOMIC OUTLOOK

Page 1 of Budget Paper No 1 notes that “the global economic outlook has deteriorated and is highly uncertain. High inflation and rising interest rates will see the weakest 2 years for the global economy in over 2 decades, outside of the Global Financial Crisis and the pandemic. Tighter financial conditions associated with recent banking strains in the United States and Europe are a further drag on growth and add more uncertainty to the global outlook.”<sup>BP1</sup>

The below table is extracted from page 6 of Budget Paper No 1 document which summarises the Treasurer’s forecast for major economic parameters.<sup>BP1</sup>

Table 1.1: Major economic parameters (a)						
	Outcome			Forecasts		
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	%	%	%	%	%	%
Real GDP	3.7	3.25	1.50	2.25	2.75	2.75
Employment	3.6	2.50	1	1	1.75	1.75
Unemployment rate	3.8	3.50	4.25	4.50	4.50	4.25
Consumer price index	6.1	6	3.25	2.75	2.50	2.50
Wage price index	2.6	3.75	4	3.25	3.25	3.50
Nominal GDP	11.0	10.25	1.25	2.50	5.25	5.25

a) Real GDP and Nominal GDP are percentage change on preceding year. Employment, the consumer price index 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 Survey, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.

Nominal GDP is forecast to grow strongly by 10.25 per cent in 2022/23. The strength of the labour market and a pick-up in wages growth, an elevated terms of trade from higher commodity prices and stronger growth in domestic prices are all contributing to this strong growth.<sup>BP1</sup>

Nominal GDP growth is then expected to slow to 1.25 per cent in 2023/24 due to the assumed decline in commodity prices, which is offset by ongoing strength in domestic prices and growth in output. Solid output growth is expected to support nominal GDP growth of 2½ per cent in 2024/25.<sup>BP1</sup>

Nominal Gross Domestic Product (Nominal GDP) is the total market value of all goods and services produced in a country's economy over a given period. Unlike other GDP measurements, nominal GDP is not adjusted to account for price changes from inflation and deflation. It means that it rises and falls (usually rises) with the change in price and economic output in an economy. In the real world, the nominal GDP is usually used to compare GDP to other economic variables that do not adjust for inflation, including debt. <sup>CFI</sup>

In contrast, real GDP accounts for changes in price that may occur due to inflation or deflation. <sup>CFI</sup>

## BUDGET OVERVIEW

The table below has been extracted from page 6 of the Budget overview – Stronger foundations for a better future 2023/24 document. <sup>BOV</sup>

		Actual			Estimates			
		2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total <sup>(a)</sup>
		\$b	\$b	\$b	\$b	\$b	\$b	\$b
Underlying cash balance	\$b	-32.0	4.2	-13.9	-35.1	-36.6	-28.5	-109.9
	% of GDP	-1.4	0.2	-0.5	-1.3	-1.3	-1.0	
Gross debt	% of GDP	38.8	34.9	35.8	36.3	36.5	36.5	
Net debt	% of GDP	22.3	21.6	22.3	23.5	24.0	24.1	

(a) Total is equal to the sum of amounts from 2022-23 to 2026-27.

A budget surplus of \$4.2 billion is estimated for the 2022/23 financial year however from 2023/24 onwards the forecast is for budget to move back into deficit and for net debt as a % of GDP to start growing again. Meaning more money flowing out than received and more debt incurred to fund the shortfall.

A budget surplus or deficit is defined by the underlying cash balance, which is a measure of the difference between the receipts of the Australian Government (including tax and non-tax receipts) and the payments the Government makes on a cash accounting basis. <sup>UCB</sup>

Gross debt measures the face value of Australian Government Securities (AGS) on issue. <sup>BP1</sup>

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). <sup>BP1</sup>

Below is an extracted section of the Australian Government general government sector cash flow statement. <sup>BP1</sup>

Table 10.3: Australian Government general government sector cash flow statement <sup>(a)</sup>						
		Estimates				
		2022-23	2023-24	2024-25	2025-26	2026-27
		\$m	\$m	\$m	\$m	\$m
<b>Cash receipts from operating activities</b>						
Taxes received		588,050	616,275	614,332	647,846	680,743
Receipts from sales of goods and services		19,200	20,792	21,845	22,342	23,348
Interest receipts		6,115	7,654	7,168	6,930	7,160

Dividends, distributions and income tax equivalents	5,407	6,889	7,288	7,667	8,083
Other Receipts	16,457	14,255	20,344	15,743	15,784
<b>Total operating receipts</b>	<b>635,230</b>	<b>665,865</b>	<b>670,967</b>	<b>700,529</b>	<b>735,118</b>
<b>Cash payment for operating activities</b>					
Payment to employees <sup>(b)</sup>	-38,758	-41,669	-42,303	-43,134	-44,044
Payments for goods and services	-173,325	-188,258	-198,949	-212,093	-218,097
Grants and subsidies paid	-226,775	-246,189	-245,906	-249,254	-253,299
Interest paid	-18,792	-21,052	-22,382	-28,186	-27,147
Personal benefit payments	-145,664	-153,940	-166,227	-176,408	-187,880
Other payments <sup>(b)</sup>	-7,797	-8,541	-8,717	-8,955	-9,074
<b>Total operating payments</b>	<b>-611,110</b>	<b>-659,649</b>	<b>-684,484</b>	<b>-718,029</b>	<b>-739,542</b>
<b>Net cash flows from operating activities</b>	<b>24,119</b>	<b>6,216</b>	<b>-13,517</b>	<b>-17,500</b>	<b>-4,424</b>

The interest paid expense is estimated to be \$18.8 billion in 2022/23, \$21.0 billion in 2023/24, \$22.4 billion in 2024/25, \$28.2 billion in 2025/26 and \$27.1 billion in 2026/27.

Government salary and wages (payments to employees) plus other employee related expenses (other payments) are estimated to cost \$46.6 billion in 2022/23, \$50.2 billion in 2023/24, \$51.0 billion in 2024/25, \$52.1 billion in 2025/26 and \$53.1 billion in 2026/27.

Below is an extracted section of the Australian Government general government sector cash flow statement.

BP1

**Table 10.3: Australian Government general government sector cash flow statement (continued) <sup>(a)</sup>**

	Estimates				
	2022-23	2023-24	2024-25	2025-26	2026-27
	\$m	\$m	\$m	\$m	\$m
<b>GFS cash surplus (+)/deficit (-) (c)</b>	6,717	-11,368	-32,433	-33,953	-25,743
<i>Plus</i> Principal payments of lease liabilities (d)	-2,516	-2,550	-2,625	-2,674	-2,708
<b>Equals underlying cash balance (e)</b>	4,202	-13,918	-35,058	-36,627	-28,450
<i>Plus</i> Net cash flows from investments in financial assets for policy purposes	-11,689	-5,795	-14,120	-15,215	-12,804
<b>Equals headline cash balance</b>	-7,487	-19,713	-49,178	-51,842	-41,255

a. A positive number denotes a cash inflow; a negative number denotes a cash outflow.

b. Consistent with ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.

c. GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.

d. 'Net cash flows from financing activities for leases' has been renamed to 'principal payments of lease liabilities'. Principal payments of lease liabilities, which are financing cash payments, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.

e. The term underlying cash balance is not used by the ABS.

The budget reports an underlying cash balance of a surplus of \$4.2 billion for 2022/23, however, once net cash flows from investments in financial assets for policy purposes is included in the calculation the headline cash balance becomes a deficit of \$7.5 billion.

## BUDGET INITIATIVES

Below is a list of some of the key initiatives presented within the budget extracted from various Budget Fact Sheets. <sup>BFS</sup>

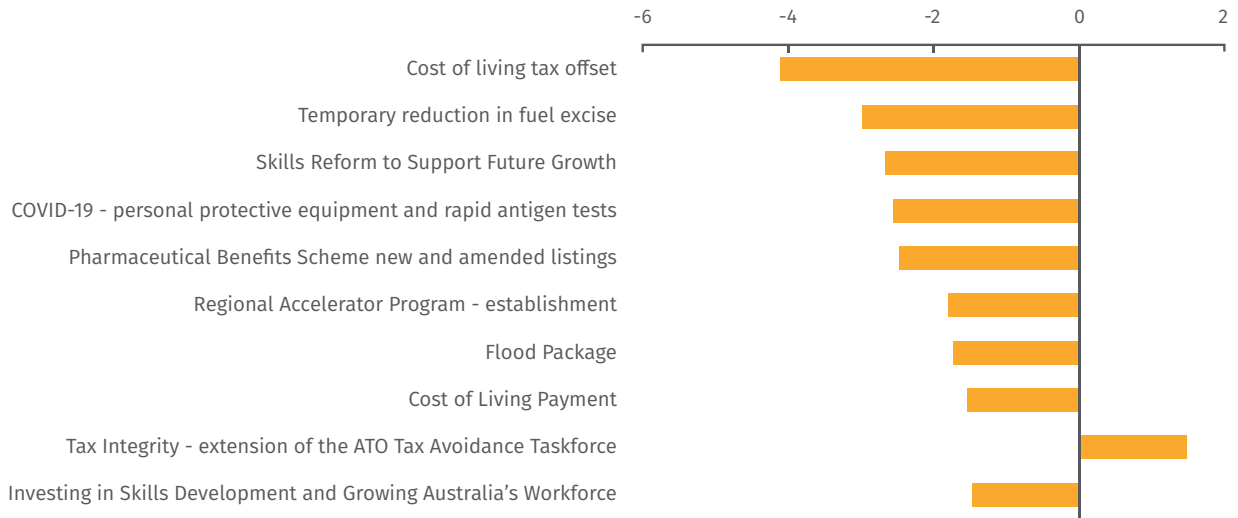
Initiative	Amount
Cost-of-living support	\$14.6 billion
Aged care award increase	\$11.3 billion
Medicare investment	\$5.7 billion (over 5 years)
Welfare increases	\$4.9 billion (over 5 years)
Renewable energy plan (increase)	\$4.0 billion
Energy bill relief	\$3.0 billion
Hydrogen production	\$2.0 billion
Parenting payment expansion (single)	\$1.9 billion
Household energy upgrades	\$1.3 billion
NDIS staff increase and cost reduction reforms	\$730 million

## OTHER INITIATIVES

Initiative	Method/Outcome
Encouraging more social and affordable housing	Lifting the National Housing Finance and Investment Corporation's liability cap by \$2 billion, to allow more low-cost loans to Community Housing Providers
Driving private sector housing supply	Incentivising build-to-rent projects by halving the managed investment trust withholding tax rate from 30 per cent to 15 per cent and providing accelerated depreciation.
Increasing revenues	Increasing super tax on balances above \$3 million. Increasing tobacco tax.

Below is a summary chart taken from the Parliament of Australia website that shows the top 10 largest budget measures (2021/22 to 2025/26) and their impact on the underlying cash balance. <sup>POA</sup>

**Figure 4C: Top 10 largest measures (2021-22 to 2025-26) (\$b, impact on UCB)<sup>14</sup>**



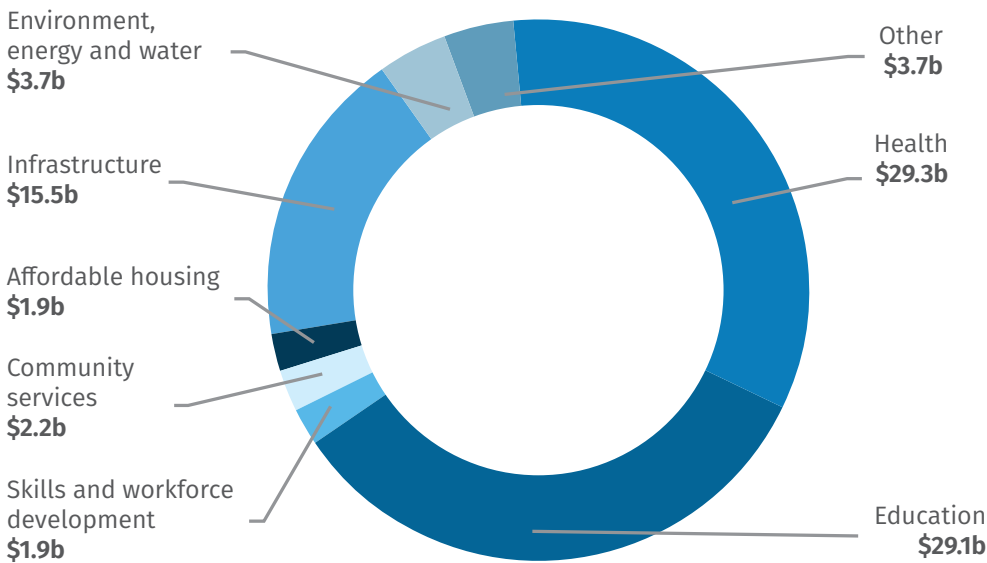
### SPECIFIC PURPOSE PAYMENTS

In 2023/24, the Australian Government will provide the states with \$87.4 billion in payments for specific purposes. This represents an increase of \$6.6 billion or 8.2 per cent compared with the 2022/23 estimate primarily due to an increase in infrastructure investment and the new Energy Bill Relief Fund. <sup>BP3</sup>

Payments for specific purposes are estimated to make up 12.8 per cent of total Australian Government expenditure in 2023–24 and be 3.4 per cent of GDP. <sup>BP3</sup>

The chart below shows is an extract from Budget Paper No 3 and shows the estimated specific purpose payments to the states in 2023–24 by sector <sup>BP3</sup>

**Chart 1.1: Payments for specific purposes 2023-24, by sector**



## SUMMARY

While the Federal Budget aims to address immediate challenges and promote economic stability, deficiencies in managing the economy at different levels have become apparent. The budget's focus on short-term relief measures, without sufficient emphasis on long-term structural reforms, may hinder Australia's ability to navigate future uncertainties and achieve sustained economic prosperity.

The global economy is experiencing slowdowns, persistent inflation, and financial sector strains. Australia's economic growth is expected to slow, necessitating strategic measures to manage inflationary pressures and maintain stability. While the budget outlines policies to alleviate inflation and foster wage growth, questions arise regarding the sufficiency of these measures to withstand prolonged economic volatility.

Budgets are influenced by various factors, including political agendas and the need to secure votes. It is important to strike a balance between short-term gains and long-term preparedness. While immediate relief measures can provide temporary respite, it is crucial to ensure a comprehensive and sustainable approach that considers the nation's future needs and challenges.

## CONTACT AXIS

As super specialists, we have a keen awareness of key economic indicators and have been assisting individuals with growing and protecting their super for over 25 years.

Give us a call on **1800 111 299** or email [super@axisfg.com.au](mailto:super@axisfg.com.au)

## REFERENCES

BP1 [https://budget.gov.au/content/bp1/download/bp1\\_2023-24.pdf](https://budget.gov.au/content/bp1/download/bp1_2023-24.pdf)

BOV <https://budget.gov.au/content/overview/index.htm>

UCB <https://www.finance.gov.au/about-us/glossary/pgpa/term-underlying-cash->

BP3 [https://budget.gov.au/content/bp3/download/bp3\\_2023-24.pdf](https://budget.gov.au/content/bp3/download/bp3_2023-24.pdf)

BFS <https://budget.gov.au/content/downloads.htm#FS>

POA [https://Parliamentary\\_Budget\\_Office/Publications/Chart\\_packs/2022-23\\_Budget\\_Snapshot](https://Parliamentary_Budget_Office/Publications/Chart_packs/2022-23_Budget_Snapshot)

CFI <https://corporatefinanceinstitute.com/resources/economics/nominal-gross-domestic-product/>

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