

HD AUSTRALIAN BUDGET 2014

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BBC News report (abridged):

"Australia's government aims to nearly halve its budget deficit over the next year through a combination of tough spending cuts and tax increases.

"Under their plans, the deficit is forecast to fall from \$50bn Australian dollars (\$47bn; £28bn) to \$30bn.

However, the spending cuts are expected to result in thousands of job losses.

The economic blueprint also includes plans for the possible **sale** of assets such as the Royal Australian Mint and aural aid-maker Australian hearing.

For the financial year starting 1 July, the government is looking to spend A\$11bn on key infrastructure projects such as roads, railways and a new airport in Sydney.

They also announced plans to create a A\$20bn medical research fund in a bid to help diversify its economy away from its reliance on **mining**.

The government also fielded a proposal to raise Australia's retirement age to 70 by 2035, to combat the problems associated with an ageing population.

Their aim is to bring Australia's finances into the black in time for the next round of elections, which are due to be called by 2016.

In the interim, though, foreign aid and welfare programs will have less funds and several government entities will be downsized.

This includes Australia's state broadcaster, which will lose its contract for an international television service into Asia.

The Australian Broadcasting Corporation will see its ability to run the Australia Network terminated this year for failing to be "cost-effective".

Overall 16,500 employees from across Australia's public sector are expected to lose their jobs because of the new budget.

The government did not include defence spending in its cuts, and said it had allocated \$84m to the continuing search for missing Malaysian Airlines plane MH370.

In the budget, the government forecast the Australian economy will grow by 2.5% this year.

Australia's economy has been carried by **China**'s demand for natural resources such as **iron ore** and **coal**. However, that trend has reversed as the world's second-largest economy slows down.

As a result, Australia's central bank has kept interest rates at a record low of 2.5% to help stimulate the economy as **mining** investment cools.

The Australian dollar showed little reaction following the announcements, since many of them were expected by market participants.

Morgans respected strategist Michael Knox: (slightly abridged where it refers to charts or tables included)

"Of course there are those who will be claiming that the Budget Joe Hockey has presented is an austerity budget, even a horror budget. If this is horror, then it is the kind of PG rated horror that you would see in Saturday morning cartoons.

"If this is austerity it is austerity for those who are unable to read Budget Paper No. 1...

"What do we have in the budget for the year ahead? Budget Paper No 1 shows us that payments will be 25.3% of GDP or 1.2% higher than the low in spending achieved by Wayne Swan.

Even in 2017/2018 after years of "austerity" by the current government spending will still be 24.8% of GDP. This is 0.7% higher than the low achieved by Wayne Swan.

"To believe that this kind of spending is some form of austerity requires a level of economic pre-literacy...

.. by 2017/2018 receipts will have risen to 24.9% of GDP, almost exactly where they were in 2007/2008. The fact that this rise in revenue does not produce a significant surplus shows that again Australia has a spending problem, not a revenue problem...

the Australian budget deficit reached its low at 4.2% of GDP in 2009/2010. This is on the measure of the underlying cash deficit.

"the budget deficit then improved to 1.2% of GDP in 2012/2013 before lurching again to a deficit of 3.1% of GDP in 2013/2014. 2014/2015 sees the budget improve to 1.8% of GDP.

"By 2017/2018 the deficit will decline to an underlying cash deficit of 0.2% of GDP...

"The budgeted spending for the Australian General Government sector in 2014/2015 is expected to be \$414.8 **billion**. Social Security and Welfare remains the largest area of spending and is anticipated to constitute 35.1% of total spending, up from an expected 34.7% in the previous budget.

Health spending as a percentage of the total expenditure remains steady at 16.1% (compared to 16.2% in the prior budget) while Education spending is expected to fall from 7.5% to 7.1% of the total spend...

Economic outlook

This improvement in the budget deficit occurs at the same time as the improvement in the economy. This improvement in the economy is very much driven by a boom in dwelling investment. Budget Paper No 1 (2-5) shows that 2014/2015 has a surge in dwelling investment of 7.5%. This happens at the same time as a slump in non residential construction of 9.5%. In 2015/2016 a boom in dwelling investment of 5.5% happens at the same time as the slump in non dwelling construction of 12.5%.

"Clearly what is happening here is that a dwelling construction boom is replacing a **mining** construction boom. The total effect of this is to stabilise unemployment .. higher growth of 3% in 2014/2015 stabilises unemployment in that year. In 2015/2016 growth of 3.25% begins the job of eating into the level of unemployment.

CONCLUSION

.. Spending in future years is supported at recent levels. At no time does spending as a percentage of GDP fall to the level of the Gillard/Swan Budget of 2012/2013. Spending remains well above the prudent levels achieved at the end of the Howard government in 2007/2008.

Growth increases. Unemployment stabilises then begins to fall. The budget even improves to almost balance. Best of all the faint hearted can pretend they have lived through true horror".

Our take only

THE BUDGET ADDRESSES PROBLEMS THAT ARE PASSING, NOT THOSE LOOMING

*The \$20 **billion** allocated to a medical research fund is a laudable move - Australia can become the hospital of choice for the Asian region, attracting/retaining our brilliant scientists, physicians and surgeons

- and given our state of the art medical facilities and rigid adherence to the highest standards of cleanliness in our hospitals - more dubious is its source: proceeds from the new \$7 GP co-payment scheme which may not amount to the levels forecast.

*Also, how does this sit with forcing students to pay back their loans for university courses earlier? Will it mean only the wealthy (not necessarily the brightest) afford higher education - and the gap is filled by overseas candidates.

BUT

*There was nothing in the Budget that addresses the growing dryness and heat of the southern states primarily Victoria and possibly parts of NSW and perhaps also Tasmania to some extent, as winds and currents are changing and global warming.

Eg: 30 year **bonds** on attractive terms sold to self managed and other superannuation funds to begin a national water storage and grid system to bring water from the regularly flooding areas of Queensland and the Northern Territory to the drying south. The expertise already exists in our **mining** services companies.

It would also create jobs.

Eg: Using the expertise of our **mining** services companies to create underground shelters for cattle and sheep to avoid the worst of the summer heat - significantly less costly in both money and environmental terms than air conditioned shelters.

It would also create jobs.

We have ample sunlight, which is expected to continue to increase, given global warming. Where are the huge **solar** powered schemes?

Most of our population lives on the coastline. Where are the funds to support wave **energy**?

It would also create jobs.

*Employing the young and able bodied (and those not so young but still able bodied and mentally alert). "Work for the dole" for young (and not so young) men and women is a laudable idea, but where are the jobs?

Ditto the elderly, where are the jobs?

The jobless rate is forecast to rise, even the great LNG projects moving to export from construction will employ fewer people and the **mining** boom is subsiding to more modest levels.

Will it mean we self righteously cut off the dole, throwing the jobless either onto their families for support - or to crime?

Meanwhile, trimming the pensions of the aged and creating a situation where they will not seek medical aid because of the costs, doing without heating, air conditioning etc to pay the taxes and pay for food is cruel and unnecessary.

And adding their homes to the asset test is fraught with danger. The elderly are of a generation where owning the family home was the goal of a lifetime - after paying the 30 year mortgage at much higher interest rates than now there was very little left in the modest packet for savings - relying on the old age pension for their support after retirement.

Many of the elderly who have lived in their homes and their neighborhoods for decades may choose euthanasia to being forcibly uprooted. Already, suicides in men over the age of 85 is the largest national suicide statistic.

If the deficit is worn for another 20 years, the generations that did not have compulsory super with handsome government contributions will have passed on, and future generations should be quite adequately funded via their lifelong pension accumulations.

As a corollary, while a pension age of 70 is certainly doable for desk workers who are mentally fit, it can be impossible for those in heavy manual labor to continue safely working to that age.

And what about reducing the pollution from cement and brick?

Brickworks Ltd has created the first environmentally neutral bricks.

There are already various technologies to reduce the environmental impact of producing cement.

What about funding for "clean **coal**" technology? Eg: sequestering, using the emissions for algae farms, underground **coal** gasification.

What about control and technologies to combat/cure diseases hitherto prevalent in hotter climates that will become more commonplace here - eg mosquito borne diseases such as encephalitis and malaria.

Also, will more roads bring rain to the southern states?

Will more roads prevent the heat rising?

No, these are "pretty" schemes, beloved of all politicians.

MEANWHILE, as the ABC is progressively silenced, people will need to turn more and more to hopefully unbiased reporting on Australia by overseas news services.

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