

The 2012 Budget: Surplus or bust



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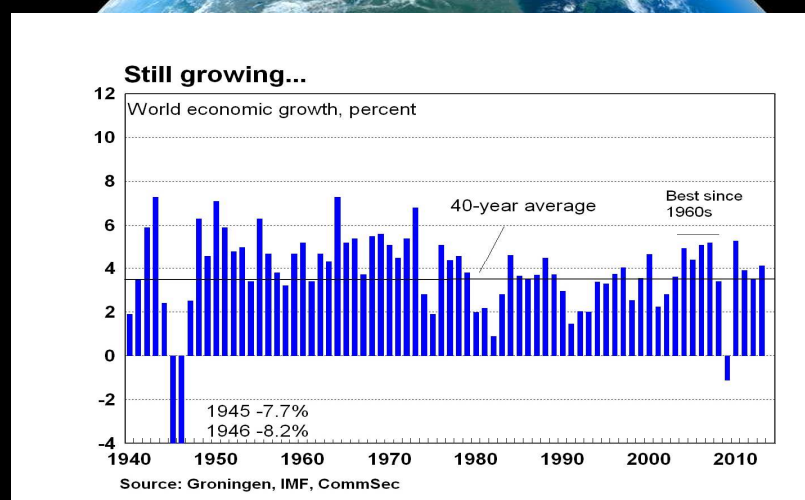
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Roadmap

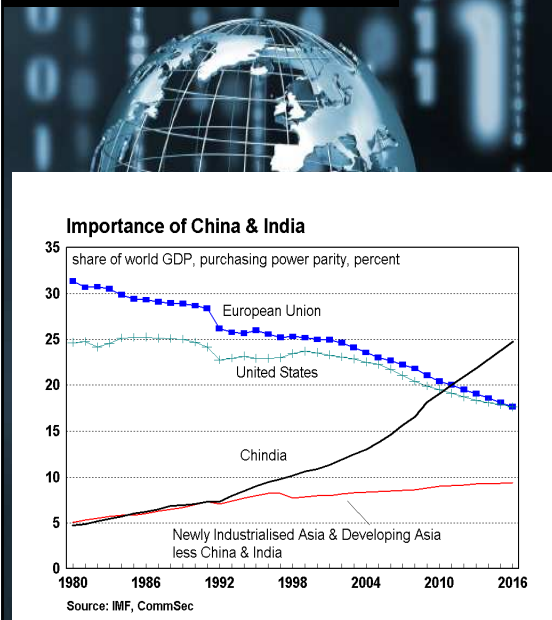
- Budget setting
- Budget 2012
- Major measures
- Winners & losers
- Issue: Interest rates
- Forecasts



Big Picture



Global changes



Drivers of world economy - Contribution to growth 2012

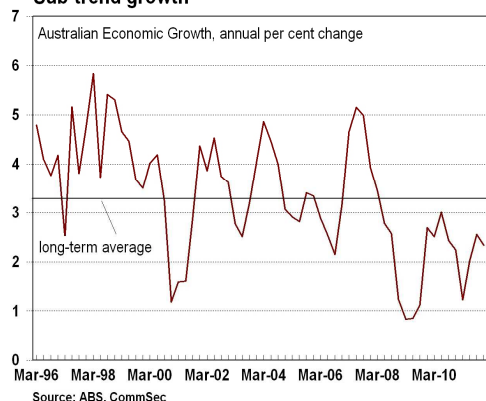
| | |
|----------------------------|--------------|
| China | 0.74% |
| United States | 0.49% |
| India | 0.17% |
| Japan | 0.15% |
| ASEAN 5 # | 0.12% |
| Newly Industrialised Asia* | 0.10% |
| Brazil | 0.08% |
| Russia | 0.07% |
| Australia | 0.05% |
| Mexico | 0.05% |
| Canada | 0.04% |
| United Kingdom | 0.02% |
| Other countries | 1.45% |
| World | 3.50% |

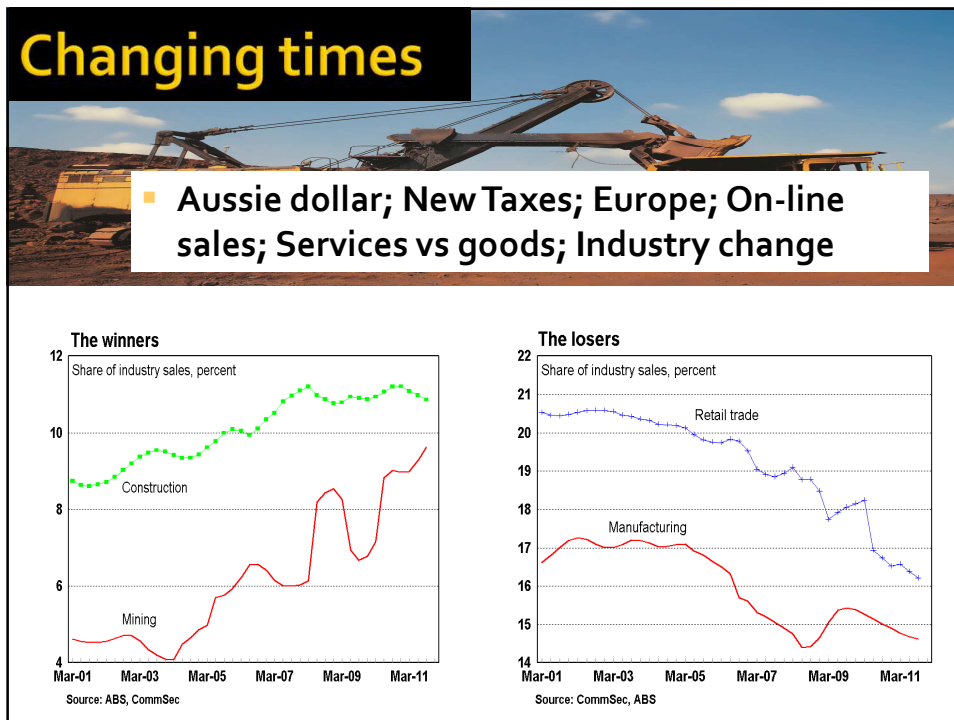
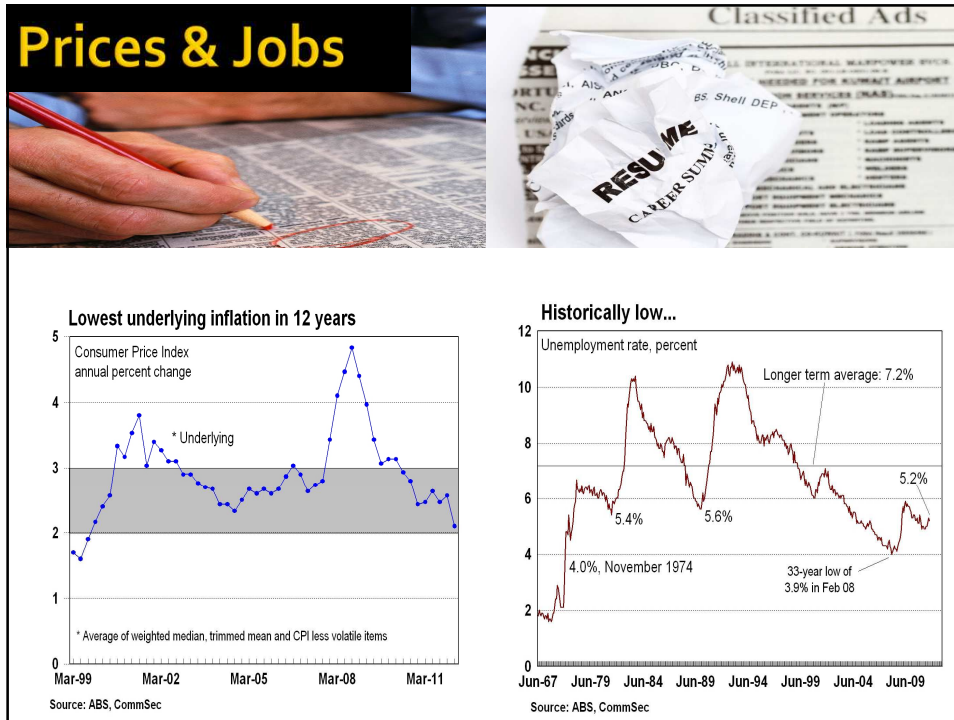
Source: IMF & CommSec
 * Newly industrialised Asia – Hong Kong, Taiwan, Singapore and South Korea
 # ASEAN 5 – Indonesia, Malaysia, Thailand, Philippines and Vietnam

Australia

- Sub-trend growth
- Inflation near 2.0%
- Unemployment just over 5%
- No recession in 20 years
- Multi-speed economy

Sub-trend growth





Main Numbers

BUDGET BOTTOM LINE

| | 2010/11a | 2011/12e | 2012/13f | 2013/14f | 2014/15f | 2015/16f |
|-------------------------------|----------|----------|----------|----------|----------|----------|
| Underlying Cash Balance - \$B | -\$47.7 | -\$44.4 | \$1.5 | \$2.0 | \$5.3 | \$7.5 |
| % of GDP | 3.4 | 3.0 | 0.1 | 0.1 | 0.3 | 0.4 |
| Net debt | \$84.5 | \$142.5 | \$143.3 | \$144.9 | \$140.1 | \$131.6 |
| % of GDP | 6.0 | 9.6 | 9.2 | 8.9 | 8.1 | 7.3 |

Source: Budget Papers

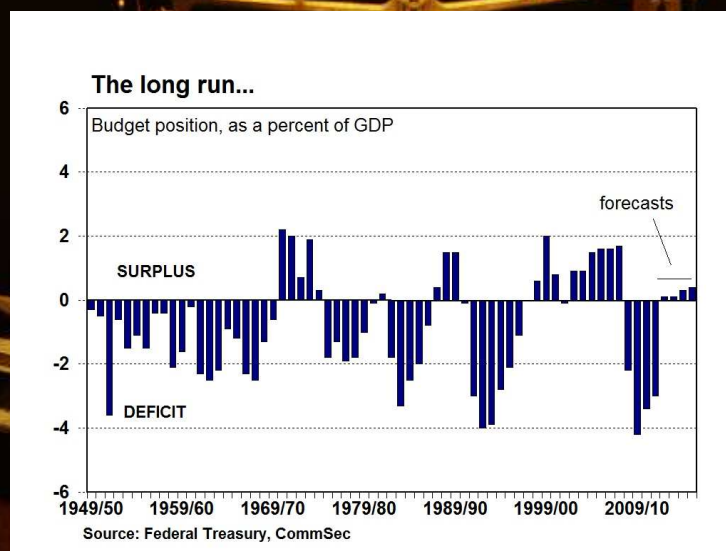
Main Numbers

FORECASTS

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|-------------------------|---------|---------|---------|---------|
| Real GDP - Budget | 3.00 | 3.25 | 3.00 | 3.00 |
| Real GDP - Mid Year | 3.25 | 3.25 | 3.00 | 3.00 |
| Employment - Budget | 0.50 | 1.25 | 1.50 | 1.50 |
| Employment - Mid Year | 1.00 | 1.50 | 1.50 | 1.50 |
| Unemployment - Budget | 5.25 | 5.50 | 5.50 | 5.00 |
| Unemployment - Mid Year | 5.50 | 5.50 | 5.00 | 5.00 |
| Inflation - Budget | 1.25 | 3.25 | 2.50 | 2.50 |
| Inflation - Mid Year | 2.25 | 3.25 | 2.50 | 2.50 |
| Nominal GDP - Budget | 5.50 | 5.00 | 5.25 | 5.25 |
| Nominal GDP - Mid Year | 6.25 | 5.00 | 5.25 | 5.25 |

Source: Budget Papers

In Context



Major Measures

Delays, deferrals, cancellations, revisions

- No company tax cut
- Schoolkids Bonus
- Cuts to Defence spending
- Superannuation changes – high income
- Disability scheme; Dental Scheme; regional hospitals

Winners & Losers

Winners:

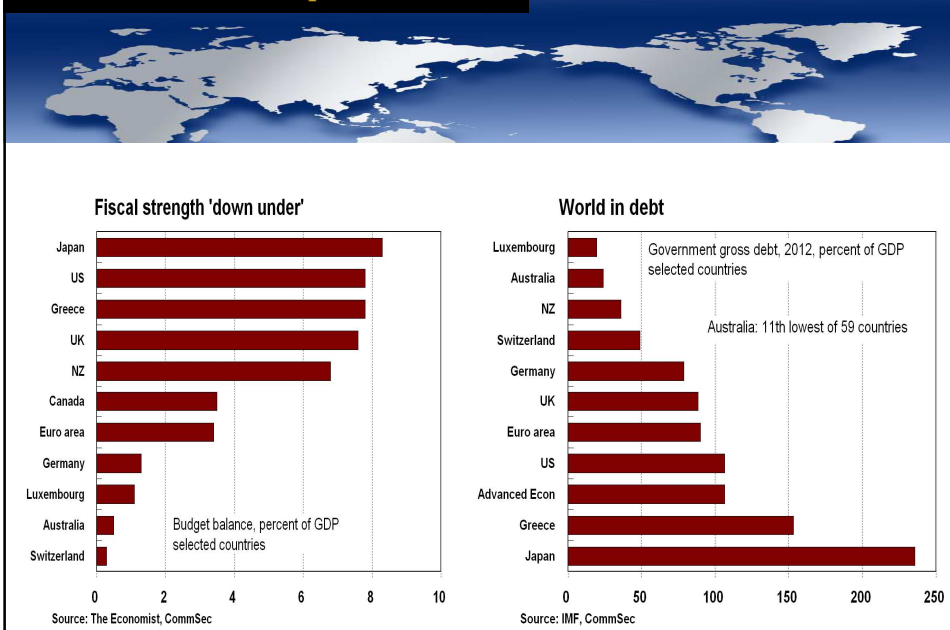
- Low income families; Small Business; Sport; Infrastructure: New Aged Care System; Regional Australia (roads, schools and hospitals)

Losers:

- Companies; High income earners; Defence industry ; Travellers; Some workers claiming "living away from home allowances"

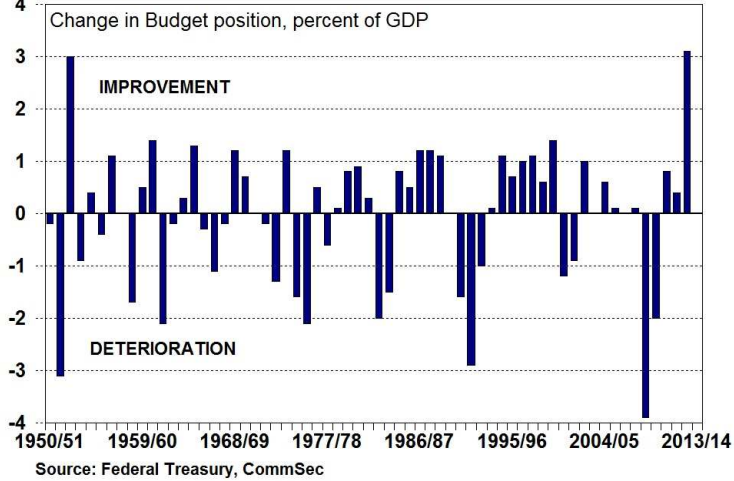
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Global comparisons



Unprecedented

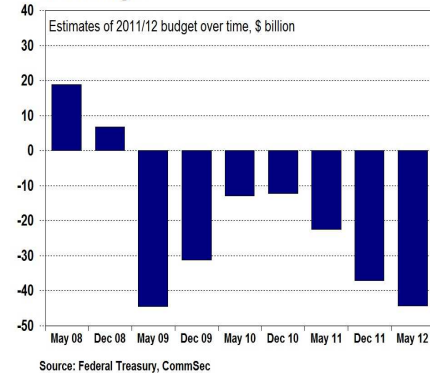
The Big Turnaround?



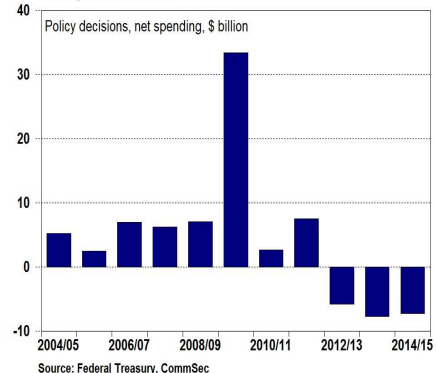
Reality check



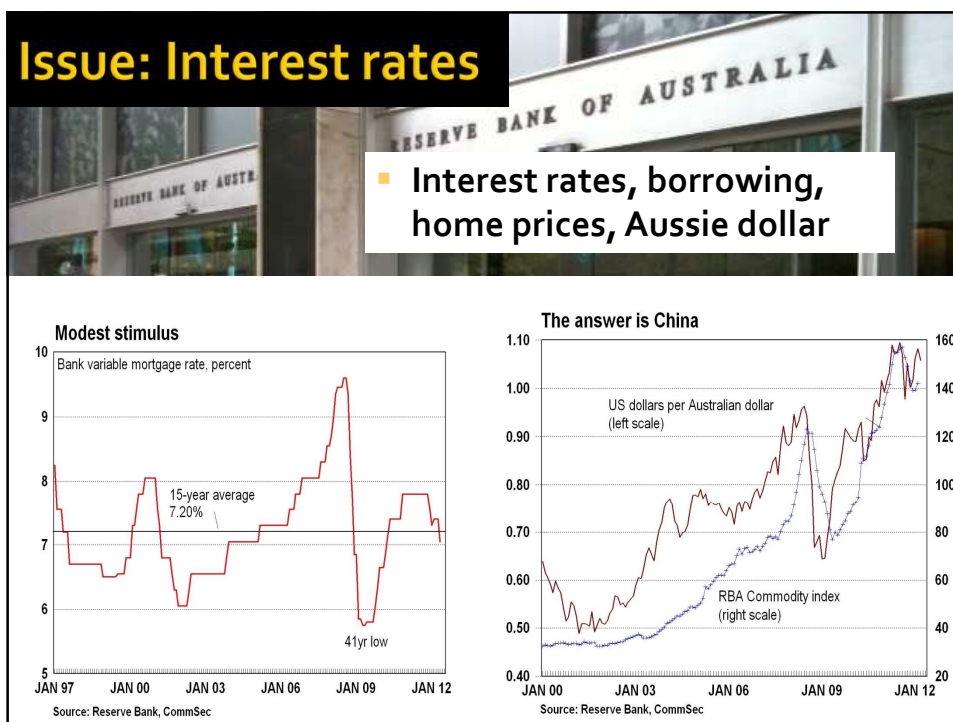
Just a budget



Discipline returns?



Issue: Interest rates



Forecasts

| | | |
|-----------------------------------|---------------------------|------------------------|
| Economic growth | 2.8% in 2011/12 | 3.3% in 2012/13 |
| Inflation | 2.3% in 2011/12 | 2.6% in 2012/13 |
| Unemployment | 4.75%-5.25%, end 2012 | 4.75-5.25%, mid 2013 |
| Cash rate | 3.50-3.75%, end 2012 | 3.50-3.75%, mid 2013 |
| Sharemarket (All Ords) | 4,650 points, end 2012 | 4,800 points, mid 2013 |
| Australian dollar | US109c in Dec 2012 | US108c in mid 2013 |