

Accelerating Australia.

An SME business guide to the Federal Budget



• Australia's economy is roaring back to life

Past policy actions continue to provide strong tailwinds to the economy - \$200bn of excess household saving in recent years is 'Exhibit A'

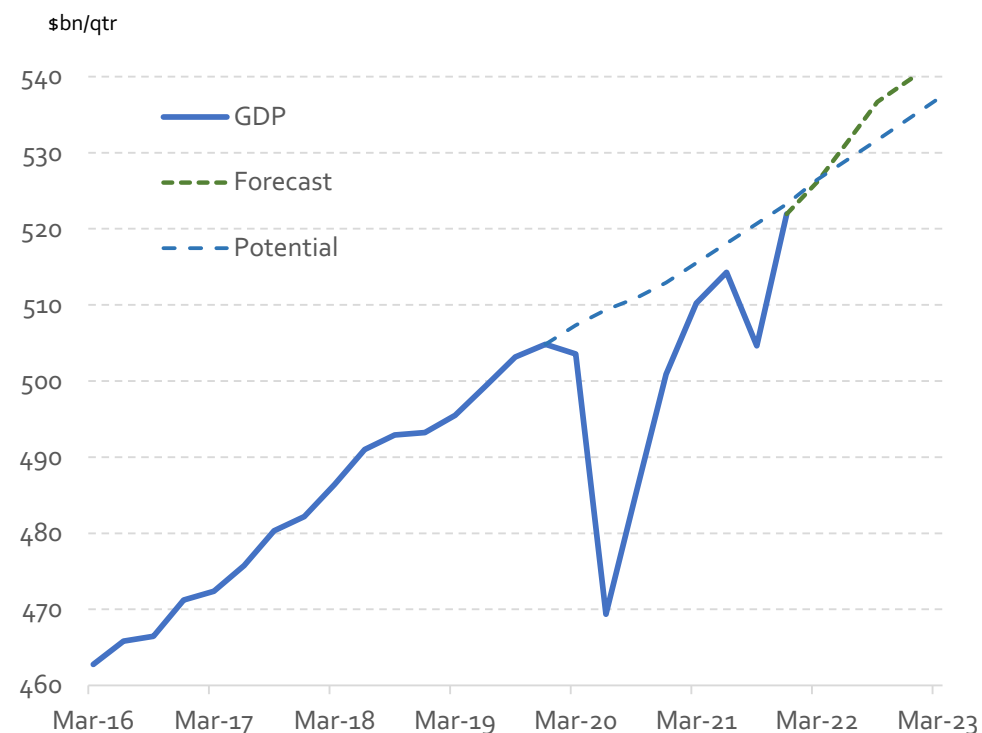
Eventually the economy will run out of capacity; that's when prices really start rising

Inflation pressures are real, the question is whether they will take hold over the medium-term – inflation expectations and wages are the key

The two biggest challenges for business in this environment are:

1. Retaining and attracting new staff
2. Passing on rising costs to customers

Quarterly GDP and Projections

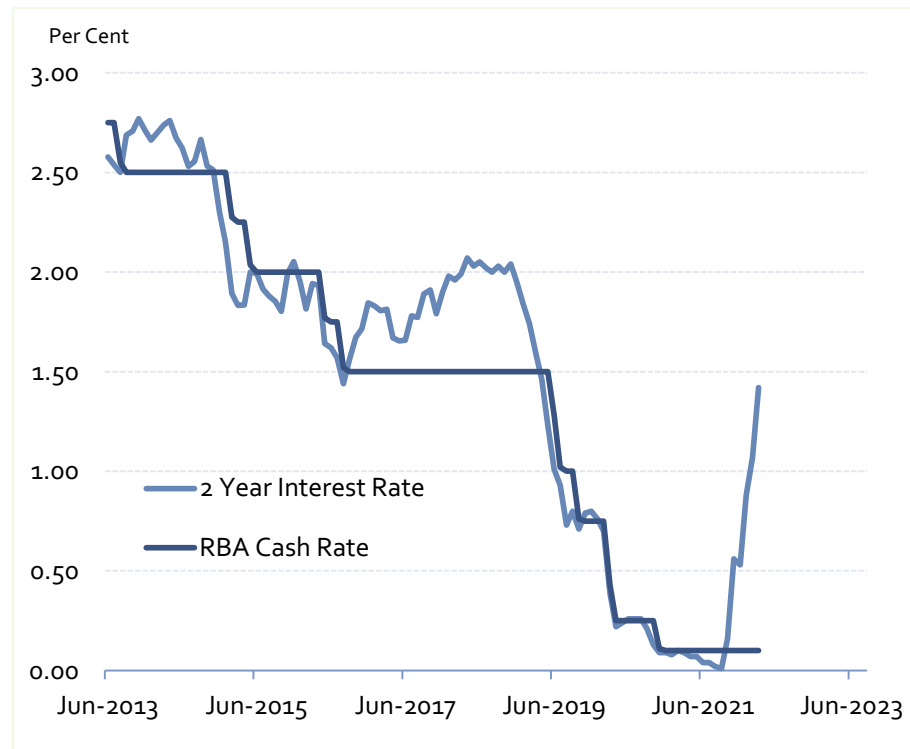


Source: ABS, RBA, EQ Economics

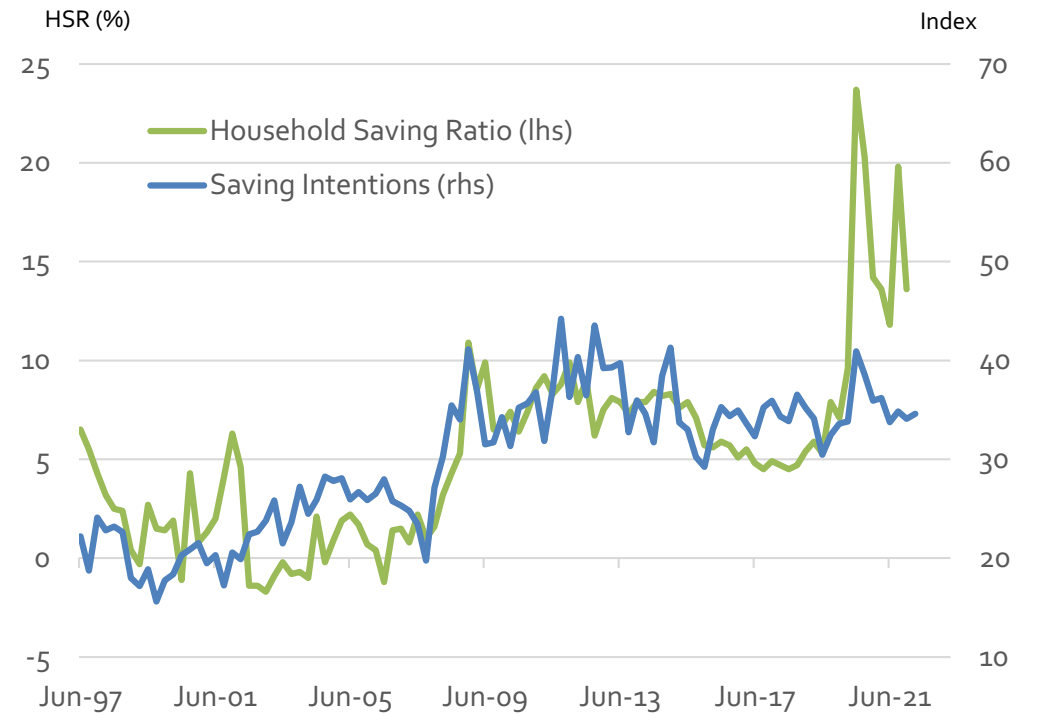
Economic policy remains on pandemic settings

- The economic environment has shifted radically in the past six months but policy settings have not
- Excess household savings amount to more than \$200bn

Interest Rates



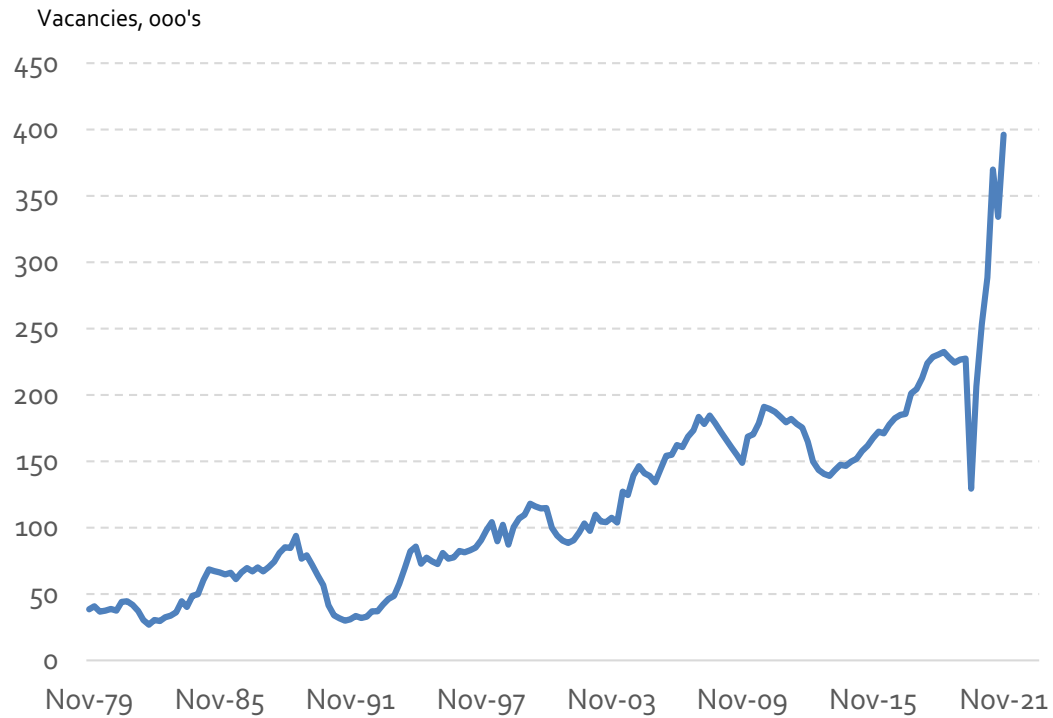
Household Saving



A severe imbalance has emerged in the labour market

- Vacancies are strongly correlated with economic conditions, but we have never seen anything like what has happened in 2021
- Working age population (16-64yrs) has been in decline as temporary visa holders have left the country

Job Vacancies



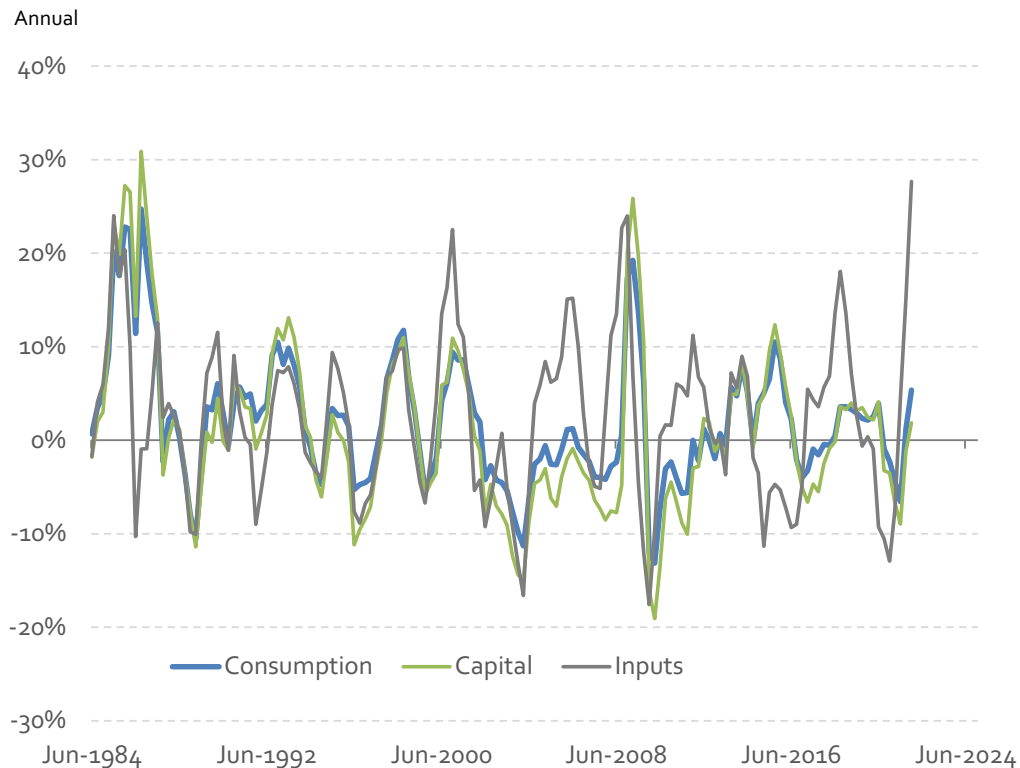
Working Age Population (annual)



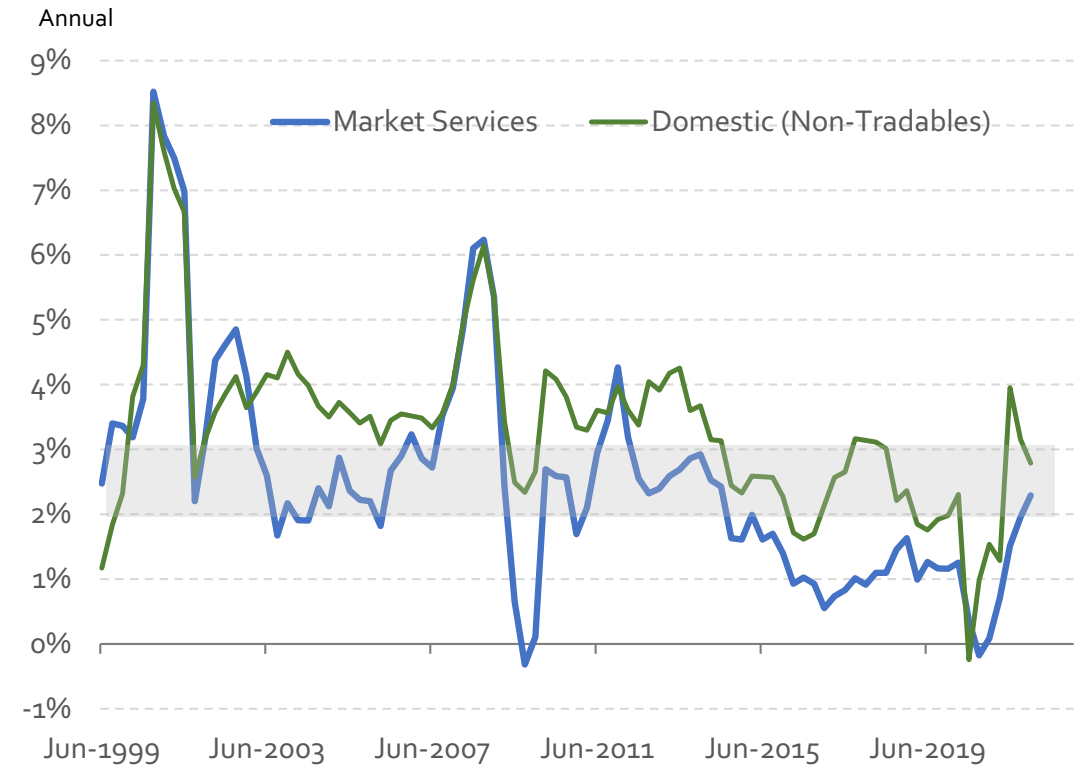
Australian inflation is set to rise in 2022

- The global goods price inflation is hitting Australian shores
- Australian domestic inflation is creeping higher in 2021

Australian Imported Goods Price Inflation



Australian Domestic Inflation (CPI)



Budget Challenge

Fiscal strategy is to grow the economy to repair the Budget

- Stage 1: Pandemic Stimulus 2020 and 2021
- Stage 2: Fiscal Consolidation 2022 -

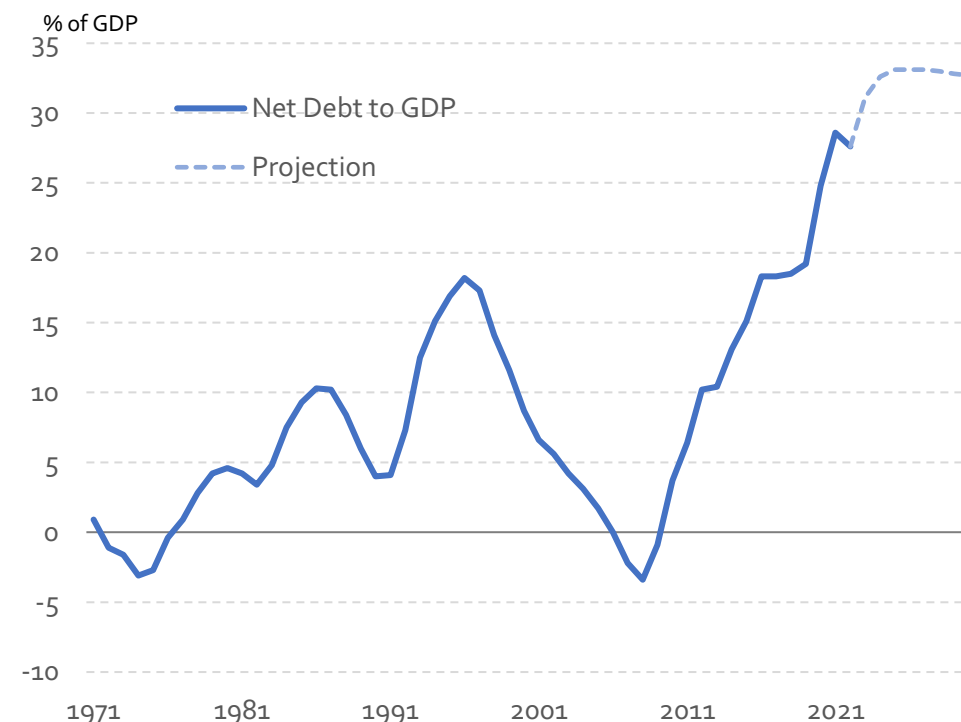
How to grow an economy that is operating near capacity?

- Increasing demand may create inflation pressures and exacerbate the strains and stresses already in the economy.
- The focus has to shift to improving the supply side of the economy

Real trick is how to make genuine supply side enhancements without pressuring the economy in the short-term.

NSW Government announcement on project delays

Net Government Debt to GDP



Source: Treasury, EQ Economics

Budget Outcomes

Deficit in 2022/23 revised down by \$20bn to \$78bn (3.4% of GDP).

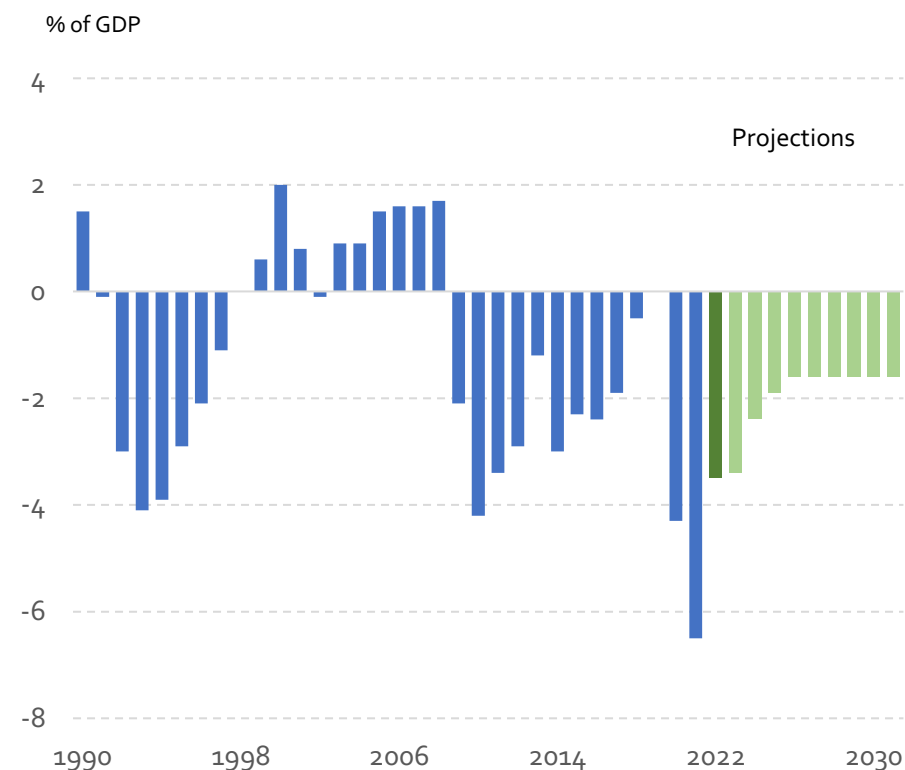
Deficit 'peaked' at \$134bn (6.5% of GDP in 2020/21)

Deficit is \$84bn lower over the next four years but a structural deficit of just under 2% of GDP remains

New policy measures will cost the Budget \$30bn over the next 4 years with the biggest spending (\$25bn) coming this year and next:

- **Cost of living relief (\$11bn)**
- **Regional transport Infrastructure (\$18bn)**
- **Defence Projects (\$15bn)**

Australia's Budget Position

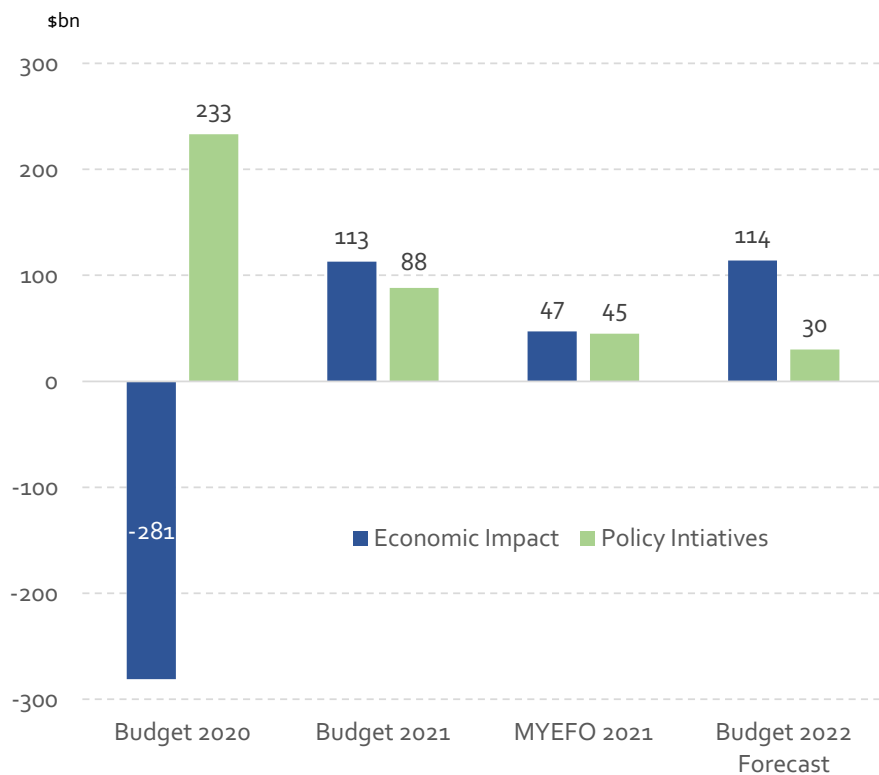


Source: Treasury, EQ Economics

The Treasurer has walked a fine line

- Sticking to the strategy of allowing Budget gains to be banked to the bottom line
- Political temptation to spend on election results

Budget Impacts



Budget Breakdown

(\$Abn)	2021/22 estimate	2022/23 forecast	2023/24 forecast	2024/25 forecast	2025/26 forecast	Cumulative
MYEFO December 2021 Underlying Cash Position	-99	-99	-85	-57	-68	-309
Impact of Stronger Economy	28	38	32	15	29	114
New Starting Point: No Policy Change Budget Position	-71	-61	-53	-42	-39	-195
New Policy Costs	-9	-17	-4	-5	-4	-30
Budget Underlying Cash Position	-80	-78	-57	-47	-43	-225

- A stronger economy plus higher commodity (export) prices had a positive impact on the Budget worth \$114bn over 4 years
- The Budget 'spent' just \$30bn of those financial gains in in the current and next year (2022/23) with the focus on cost of living measures (\$11bn)
- Total Budget improvement is \$84bn in lower deficits which translates into \$91bn in lower net debt by 2024/25.

Key Announcements

Business (SME) Measures

Tax incentives (120%) to invest in:

- External Staff Training Courses (\$0.5bn)
- Digitisation of operations (\$1bn)

Apprenticeship Subsidy (\$5bn)

- Wage subsidy of \$15,0000
- Apprentice payment of \$5,000

Net Overseas Migration to 180,000 in 2022/23

Loss Carry Back Provisions and Instant Asset Write Off **NOT extended**. These will finish on 30 June 2023.

Cost of Living

Fuel Excise Halved for 6 months (**\$5.6bn**)

- Excise cut by 22c/ltr
- Will save approximately 10% on petrol (\$30/wk)

Low and Middle Income Tax Offset (LMITO) increased by \$420 in July 2022 (**\$4.1bn**)

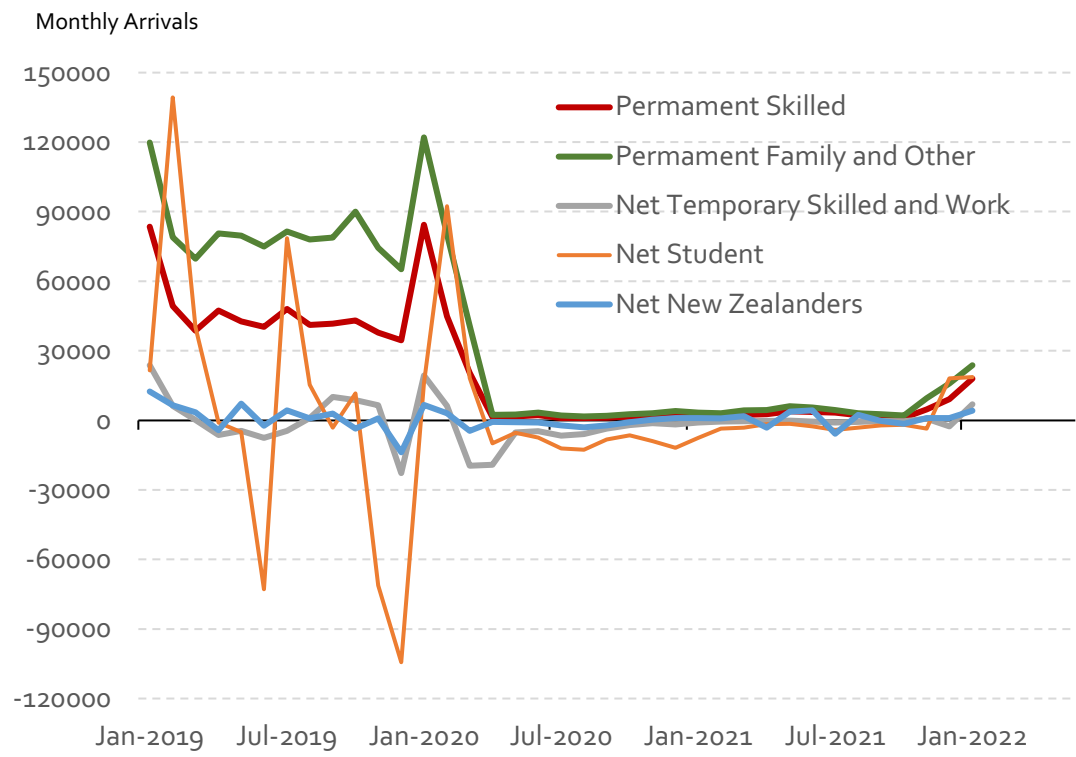
- Full LMITO payment rise from \$1080 to \$1500
- LMITO not extended beyond this year

Government Program Recipients receive \$250 payment in the next two months (\$1.5bn)

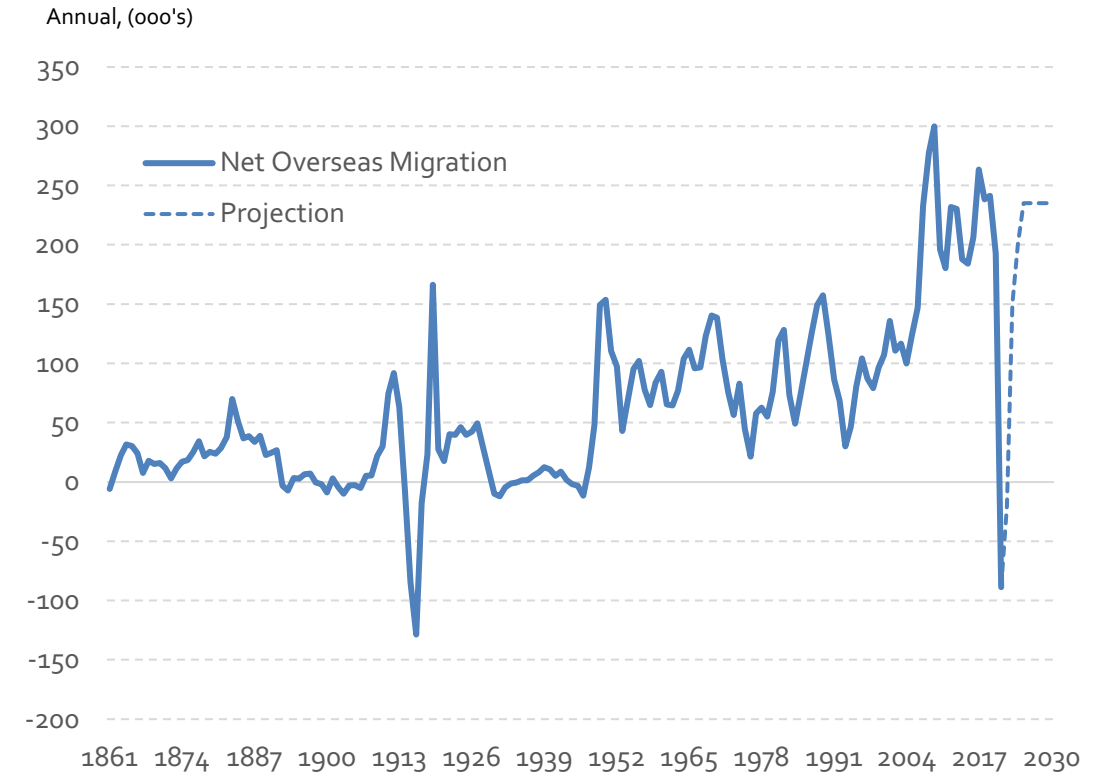
The borders have opened

- The government announced the 2021/22 immigration program in November 2021 with a permanent visa target of 160k
- Current government projections do not have 'catch-up', leaving us approximately 700k people lower than the previous 'path'

Immigration Trends (monthly)



Net Overseas Migration (NOM)



- Economic forecasts are credible but contain significant upside risks in the next 18 months

Economic growth strong this year then settles at 2.5%

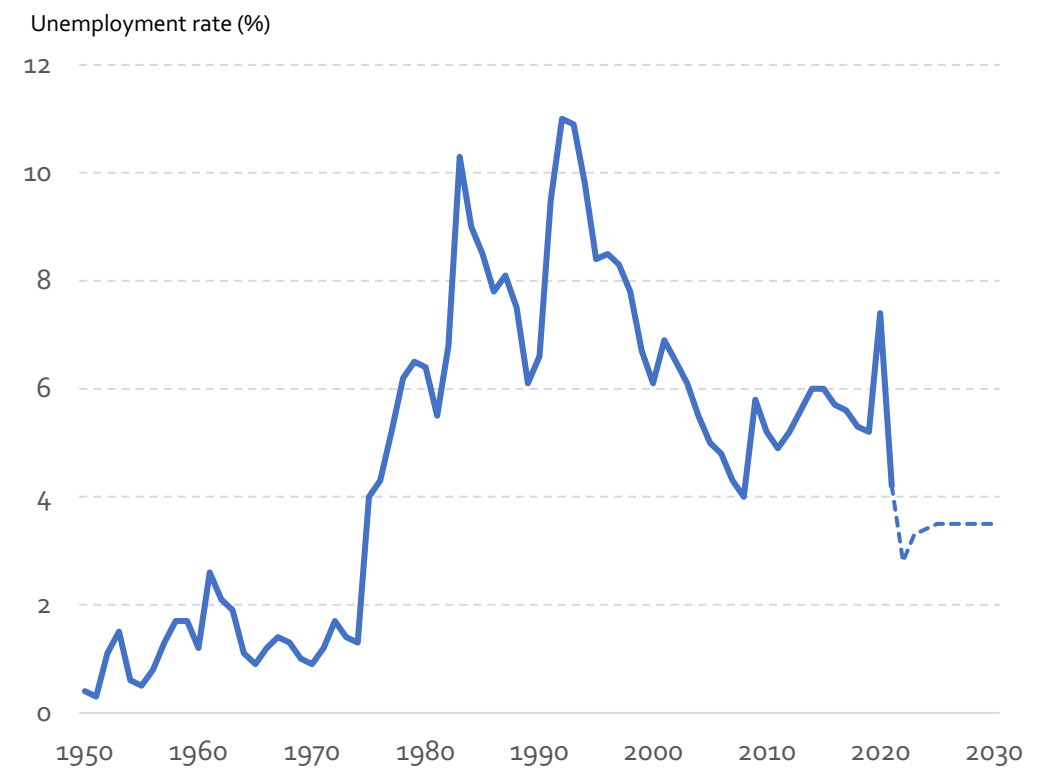
Consumer spending, business investment and exports all strong in the next year

Inflation peaks at 4.25% this year and then falls back to 3% in 2023/24

Wages growth rises modestly to 3.25%

Unemployment falls to 3.75%

Australian Unemployment Rate and Judo Projections



Source: ABS, EQ Economics

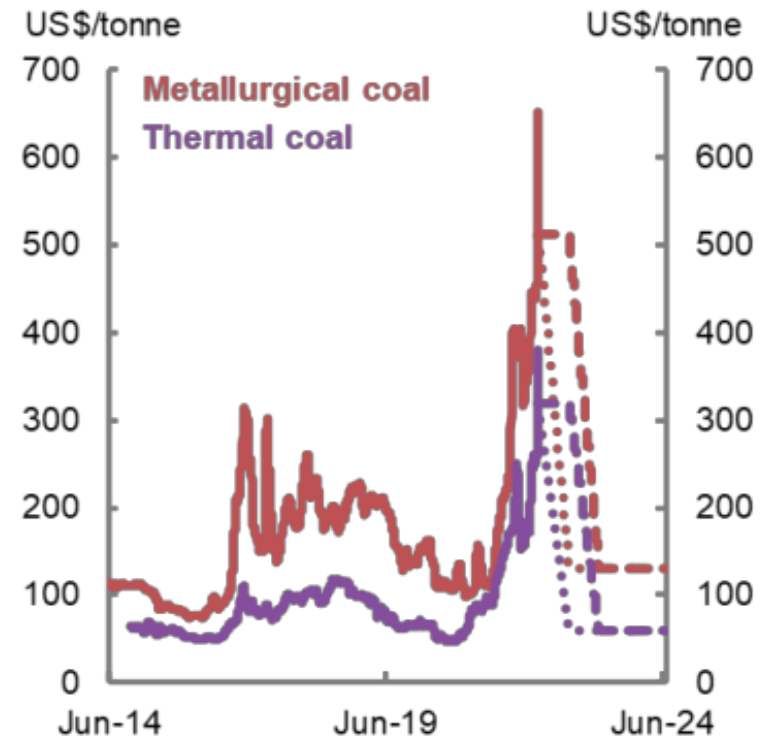
Commodity prices are expected to return to normal by 2023/24

- If iron ore and coal stay where they are the Budget will get a boost of at least \$30bn per year.
- Commodity price forecasts are in line with past practice

Iron Ore Price Projections



Coal Price Projections



Structural Budget Deficit

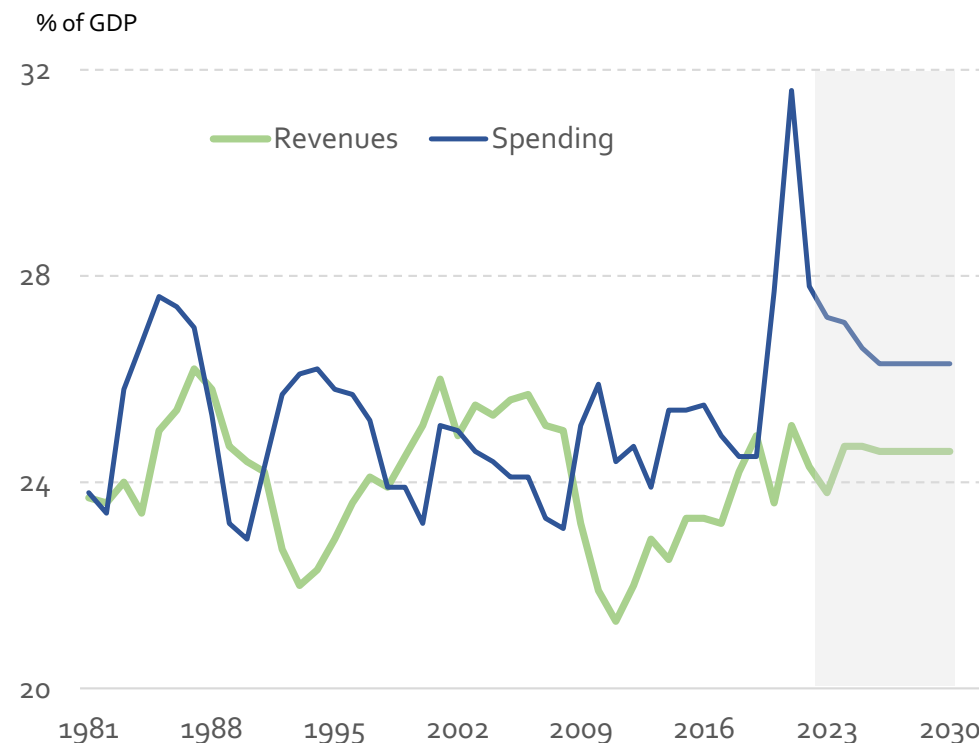
All the Budget Improvement has come from bigger revenues. Deficits might be smaller but the size of government is bigger.

This Budget didn't weaken the structural Budget position but it did not improve it in any way and leaves us with a structural Budget problem.

Government is limiting taxation to 23.9% of GDP

Long-term spending commitments remain an upside risks (NDIS, Ageing population, defence)

Government Revenues and Expenses (% of GDP)

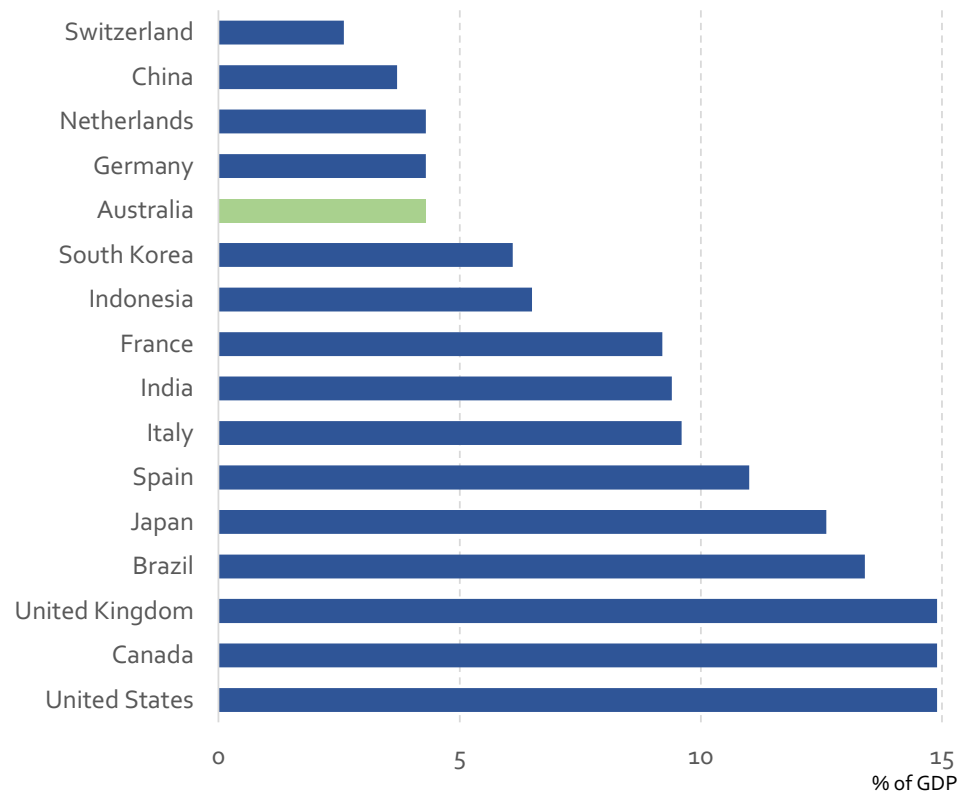


Source: Treasury, EQ Economics

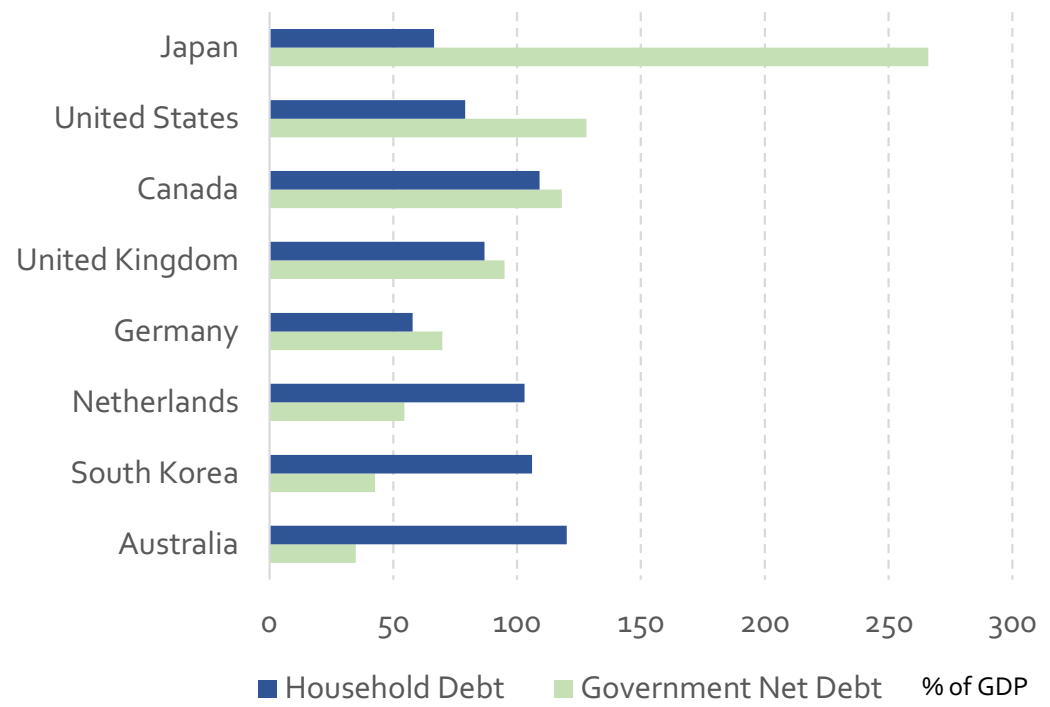
Australia's fiscal position is strong compared to others

- Australia's deficits are moderate by international standards, and our prospects much better – hence the AAA credit rating
- Government debt is low, but household debt is not

Government Deficits, 2021



Government and Household Debt, 2021



Debt and Interest Costs

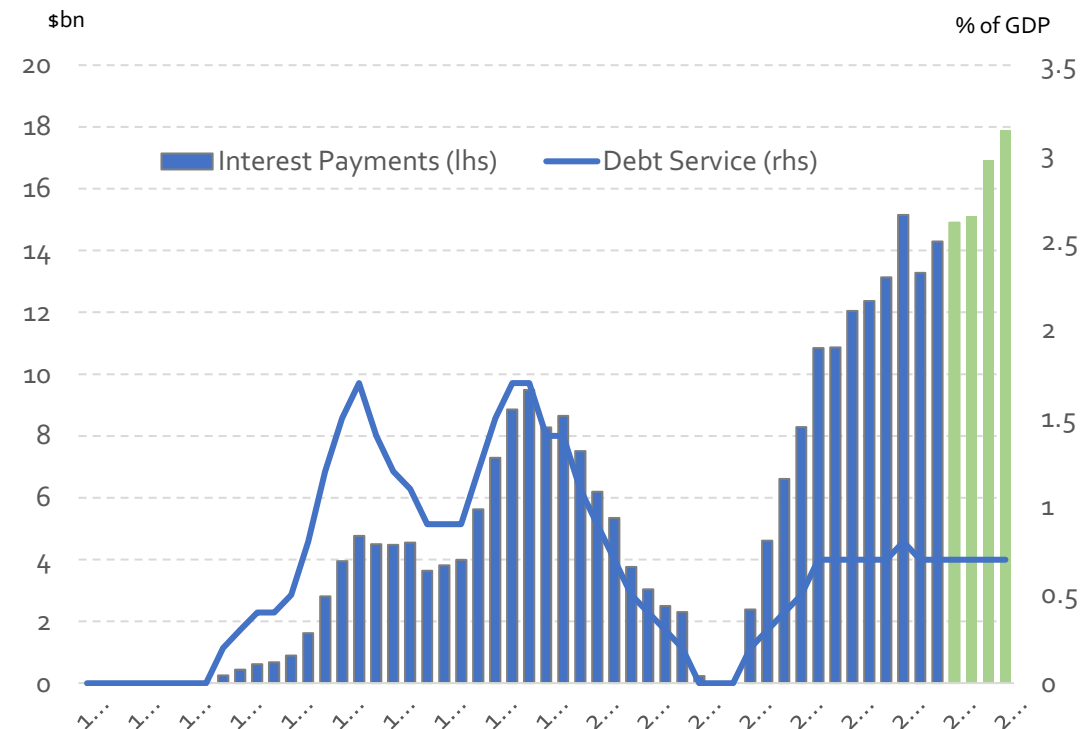
Net Debt will be \$91bn lower than previously forecast in 2024/25 due to lower deficits.

Interest costs stable as % of GDP but assumes low interest rates remain in place. Average funding cost of 2.2% versus 1.7% in MYEFO. Current rates are 2.9% for 10yrs and 2.4% for 3yrs.

Highlights that the Budget is exposed to a bigger increase in interest rates than currently expected.

Treasury is factoring in higher interest rates from 'mid 2022' which really suggests the RBA is on the verge of commencing a tightening cycle. The large fiscal injection into the economy in the next 6 months is probably enough to get them over the line in May.

Debt Service Costs

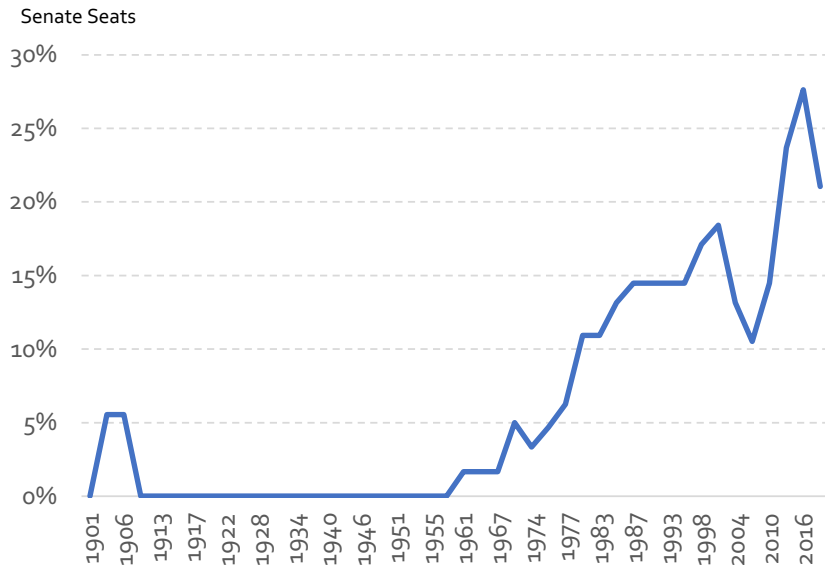


Source: Treasury, EQ Economics

Major party share of the vote has been in decline for 30 years

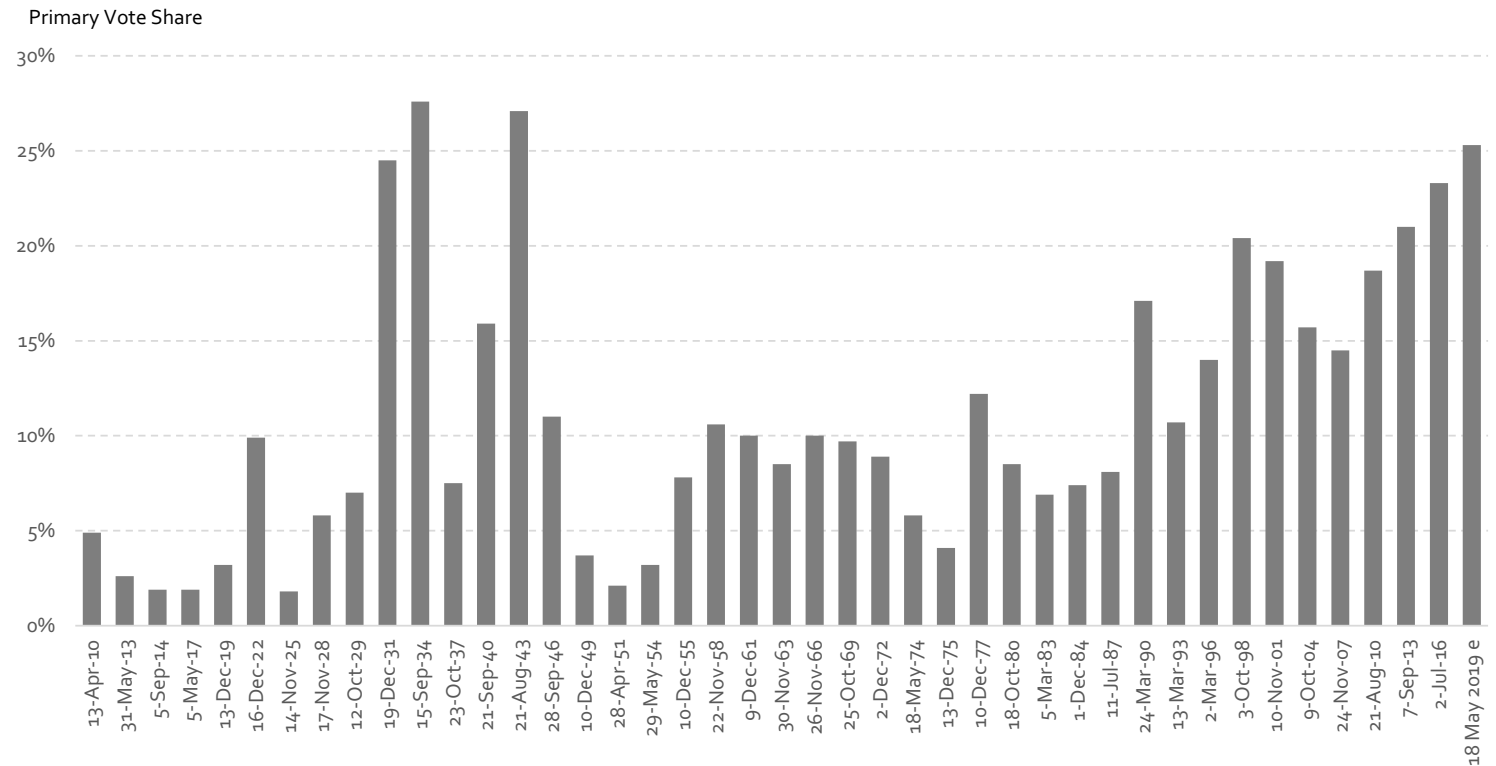
- Establishing a national political consensus is becoming increasingly difficult
- Periods of reform and positive change are more likely when the major party share is high

Minors/Independent Share of Senate Seats



Source: Australian Electoral Commission, EQ Economics

Minors Share of House of Representatives Primary Vote



Accelerate Australia

A Strong Economy:

- Rising consumer spending
- Business investing
- Construction activity booming
- Exports surging

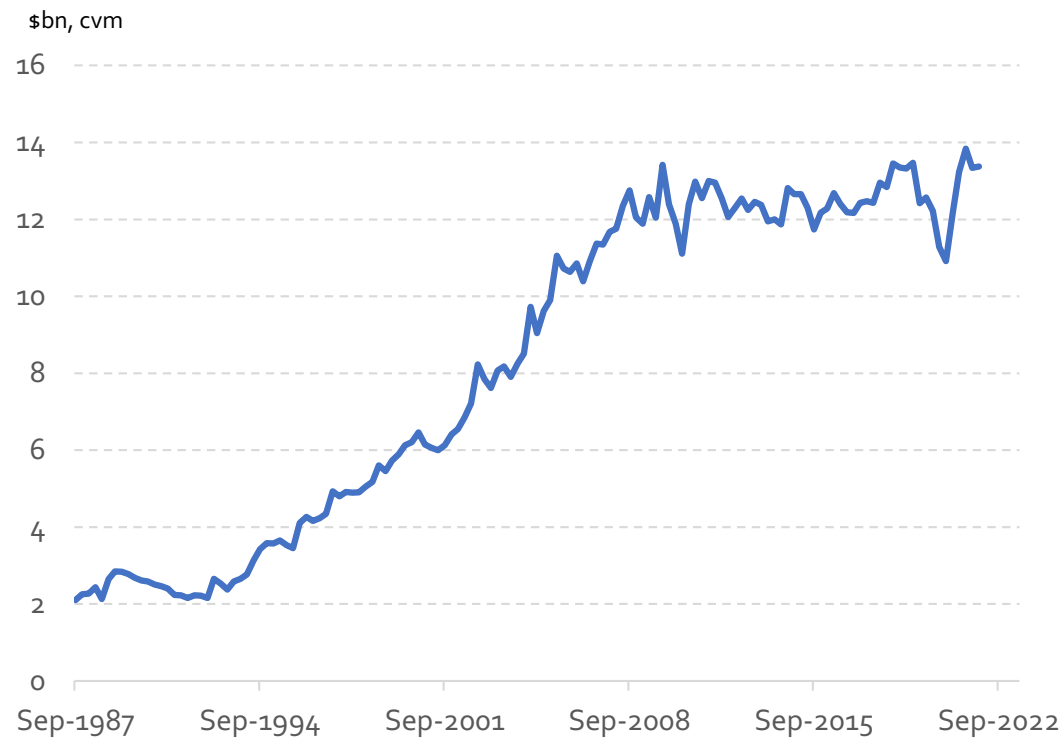
A Dynamic Economy:

- Higher labour market turnover, upskilling and rising wages
- New businesses emerging, old businesses disappearing

But Watch Out:

- Rising interest rates
- Geopolitical disruption

Ready for Take-Off?
Non-mining investment in plant and equipment



Source: ABS, EQ Economics

Thank You.

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