# Economic Outlook & Budget Update

FTMA reached out to Harley Dale to break down the latest Budget and offer some insights into the economic and budget landscape.


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# The Federal Budget and the Economic Outlook 2022

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A couple of months ahead of the election I posted tongue in cheek that you wouldn't want to win this federal election. The Federal Budget highlights that in spades because gosh what a year we are going through. The unusually uncertain dynamics of change, which have an impact on every business and business decision will remain with us throughout 2023. You only must look at the projections for electricity and gas prices (up 56 per cent and 44 per cent, respectively) to understand that. Businesses and households know all too well because they are already well into the experience of those price increases. Not everything is negative, although we could all be forgiven for thinking so based on what we watch and hear. More on that later.

Throughout this year Australians have heard a cacophony of noise around politics, economics, and geo-politics. Central to this elevated volume has been the illegal war in the Ukraine, which has been a component part of accelerated rises in living costs, the energy 'crises' and labour and materials shortages in the construction industry, just to name three.

It's not all about the war, though, with devastating floods around many parts of Australia generating tragic social, personal, mental, and economic pain, while also being reflected in cost-of-living and budget pressures. To take another home-grown example, the shortage of skilled labour in the residential building industry is an acute challenge to builders, manufacturers, and suppliers. While it is too late now and we need to look for solutions going forward, this is a structural shortage of labour that has been building (pardon the pun) over nearly twenty years. Many of us warned of it, maybe we needed to use a bigger megaphone because the bureaucrats simply didn't listen.

I could write a tome about the challenges we face. Let's instead zero in on some key aspects of the economic and housing outlook against the backdrop of a Federal Budget, a National Press Club Address from the Treasurer last Wednesday and a budget reply speech from the Opposition Leader last Thursday. All are important in shaping the economic and business outlook.

## The budget and the economic outlook

Let's start with what we make of the budget's outlook for the economy. Not much! I have always said, though, that challenging economic times bring with them business opportunities – housing may well be one of those.

The budget deficit came in at a measly $36.1bn! That's well down on the $78bn originally projected. Why? Persistently strong commodity prices plus higher income tax revenues because Australia's labour market is very strong. A good outcome.

The unemployment rate is expected to be 3.75 per cent over 2022/23, a tad higher than the latest monthly read of 3.5 per cent (September). This should keep households spending, which is a positive for business demand, including housing. Supply side constraints are the issue for the residential construction industry, and I'll come back to that …

The short-term economic outlook looks somewhat dire. Rather negative wording, I admit, but the government is to be commended for not sugar-coating things in the budget and the private sector gains nothing from hiding from reality.

Inflation is running at over 7.0 per cent overall and at 6.1 per cent as a core measure which strips out volatile items. Inflation is expected to come in at 5.75 per cent overall in 2022/23 before easing to 3.5 per cent in 2023/24. The forecasts seem optimistic to me. Get set for persistently high inflationary pressures having an impact on your business …

Economic growth is forecast to drop from 3.5 per cent this financial year to 1.5 per cent in 2023/24. That's big by historical standards (shocks like the GFC and COVID-19 notwithstanding) and puts all businesses on notice that strategic decisions will be required to confront the next eighteen months. I think housing should avoid **some** of the fall-out better than most industries. So, let's take a look.

## The construction industry

The biggie for the construction industry is the 'National Housing Accord'. There has been some criticism of this policy because of its lack of detail at this juncture, plus some focus on the new home building targets being more aspirational than achievable (the budget admits to that). I'm not convinced this is the correct attitude to take.

My reason for this view is simple. When was anybody last talking about a 'National Housing Accord'?! There are many warts on the policy but at least there is an objective to bring parties together to talk about housing. The Accord has generally been welcomed by industry, while some more astute comments imply that (using my words) we are basically at a stage where a baby is learning to take its first steps.

I am encouraged that the Treasurer has planned a roundtable next month with actual and potential housing investors. To my point earlier, when was the last time that happened?!

The core of the policy is to build one million homes over five years from next year. That is $10bn of dosh. A laudable policy which history tells us is achievable, yet against a backdrop of a huge existing pipeline (over 200,000 dwellings), skills and materials shortages, plus rising interest rates in the short term? Aspirational is probably an appropriate term. Yet if the Accord can score anything other than a zero, then under current economic and geo-political circumstances, more homes will be built over the next five years than would otherwise be the case. Everybody is entitled to criticise the policy but that doesn't mean we shouldn't embrace it.

Then we have the establishment of the Housing Australia Future Fund, the next generation of a child first born to a previous employer of mine – the Housing Industry Association (HIA). The fund should promote and expedite housing construction. Keep an eye out …

Then there is $350m earmarked to build 10,000 'affordable' homes over five years. This has shades of the Social Housing Initiative created by the HIA during the GFC. The states and territories are playing on the same field, so it turns out 10 = 10+10 so we get 20k new dwellings. Get in it to win it, because these 20k homes will be built. Then we have the Government's investment in the Housing Australia Future Fund, which is tasked with providing a further '30,000 social and affordable homes over 5 years'.

There is admittedly some cause for scepticism. FTMA members may be bemused, for example, by the first objective of the Accord: *States and territories to expedite zoning, planning and land release for social and affordable housing.* Over how many decades have we heard that?!

I suggest we look for the opportunities within, as more detail is (hopefully) revealed over time.

Build to rent is a growing sector and will be promoted within the Accord. There should be good opportunities. New dwellings being required to be built to a seven-star benchmark simply reflects the new construction code, but not everybody will be able to meet it. Further detail should reveal opportunities to gain from this requirement, be it carbon credits, some other form of rebate … If the government wants this 'climate friendly' policy to work, then they are going to need to give something back. I would have thought that timber is in the box seat there. Look closely at opportunities that may be available via the social housing program.

The National Housing Accord lacks detail but does promise substance. The Treasurer's forum with actual and potential housing investors next month reinforces this point.

Keep a close eye on the overall thrust to housing policy. There will be opportunities that haven't been available for quite some time, especially if superannuation funds come on board for real.

For the record, the key points of the National Housing Accord are: -

- States and territories to expedite zoning, planning and land release for social and affordable housing.
- The Commonwealth to provide financing options through the Housing Australia Future Fund to facilitate institutional investment in social and affordable housing.
- Working with local governments to deliver planning reforms and free up landholdings.
- Institutional investors to leverage investment that delivers for their members' interests and for the national interest.
- Construction sector peak bodies to support high energy efficiency rating construction, the training of more apprentices under an extended Australian Skills Guarantee and work to make housing more responsive to demand.

Watch the last two specifically in terms of business opportunities.

## So, what else is there?

Well, we can go to childcare reform. A welcome initiative from a productivity perspective. One supported by Peter Dutton and the opposition because they have accepted (don't call me cynical!) that they need to make some gains back in terms of the female voter base. Cheekiness aside, it is important that there is bi-partisan support for some key policy initiatives. It has been a while. There will still be short, sharp shrift from the opposition on many issues, energy prices being front and centre. That's what a good opposition does.

What else happens next is a smorgasbord of uncertainty, challenges plus opportunity. The situation makes the GFC appear like a speck on the horizon. The shadow of COVID-19 still prevails and even when it morphs from a pandemic to an endemic it will still be with us.

It's not a great short-term outlook but if your house is in order then opportunities will present themselves and the worm will turn. In my view. this is particularly the case for residential and commercial construction.

Regards,

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For further information on the latest budget, plus residential and commercial construction forecasts, and my latest interest rate outlook, then please contact me at:
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