

Australian Economic Update

Sticking the Landing

Gareth Spence / March 2025



Budget headlines

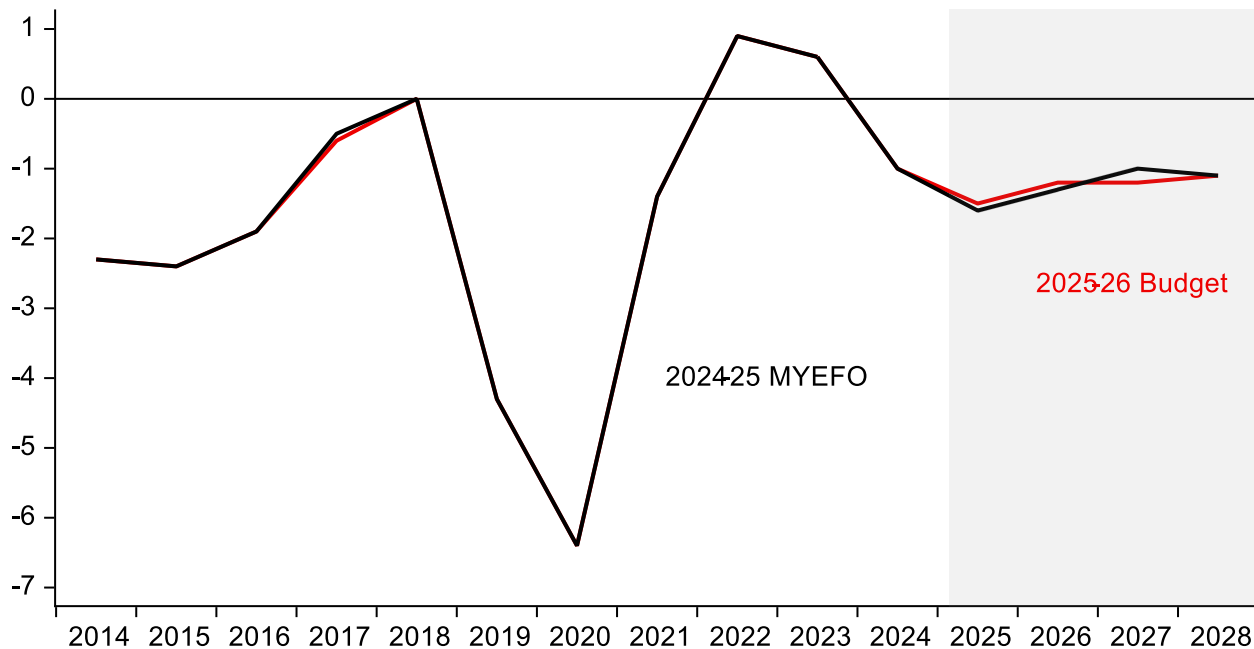
An election to come and ongoing uncertainty

- A budget that wasn't expected to happen, so there weren't many new announcements but there may be some more along the election campaign trail from both sides
- In a policy sense, the focus remained very much on cost of living measures (mainly power bill relief) alongside housing, made in Australia, health (including PBS) and education. A surprise tax cuts
- The “bonus” surpluses are behind us, with structural deficits entrenched
- Debt will continue to rise, but we are still a very low debt country
- The Treasury's forecasts are very much in line with ours, and embody and improving economic outlook
- With the fiscal impulse broadly neutral, we see little direct implication for the RBA and rates

The budget returns to deficit after two surpluses

The UCB widens to around \$42bn deficit and then narrows only slightly

Federal Budget: underlying cash balance (% GDP)

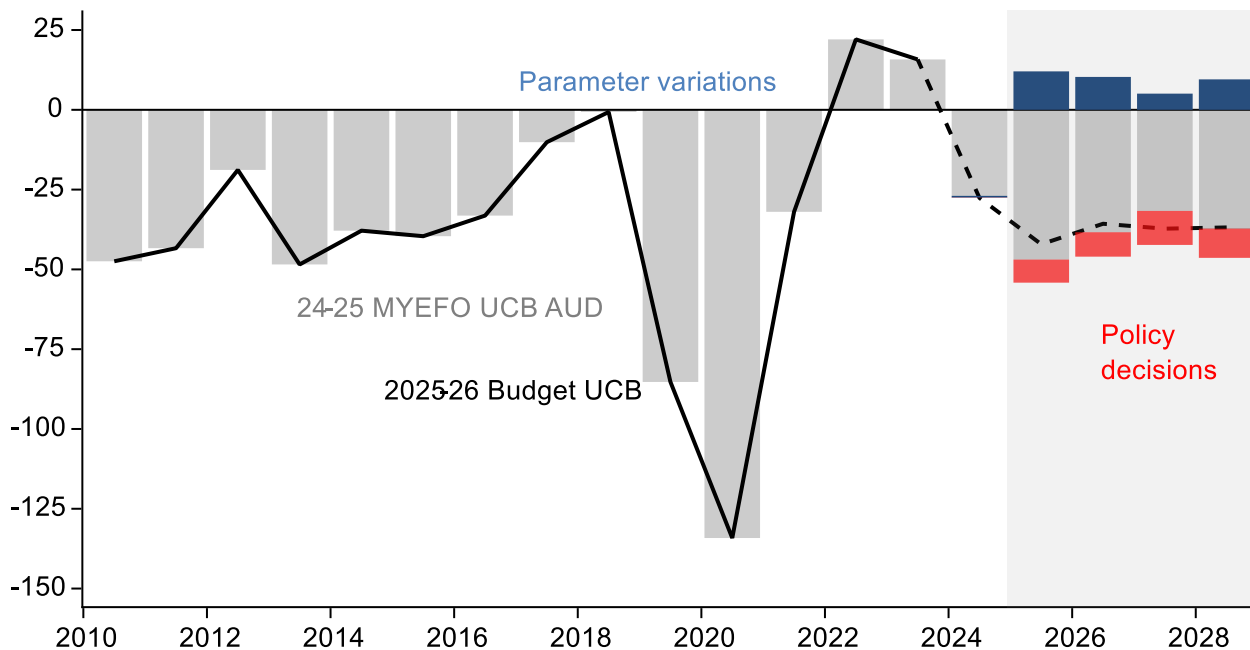


Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

The windfalls from a better economy have all been spent

Relative to MYEFO the there have been only small revisions to the forward estimates

Reasons for change in underlying cash balance (\$b)



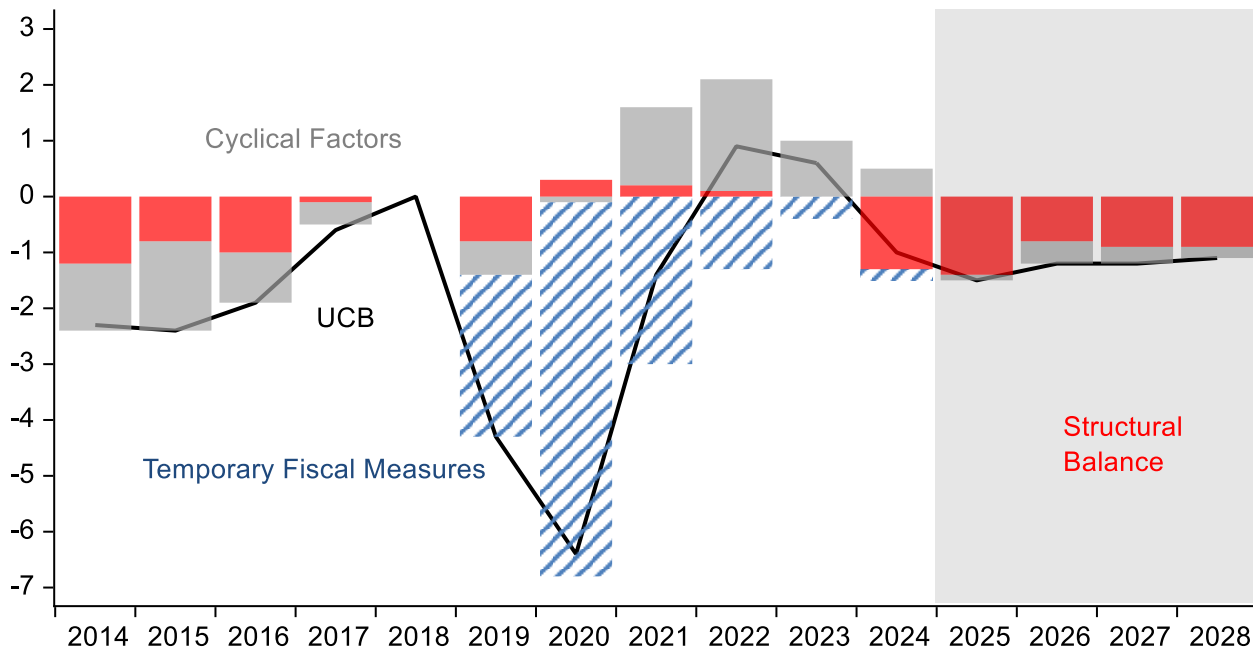
Source: National Australia Bank, Commonwealth Treasury, Macrobond

X axis shows first year of the financial year.

The budget remains in structural deficit as the pandemic fades

Though as a share of GDP remains relative contained

Federal Budget: Structural budget balance (% of GDP)

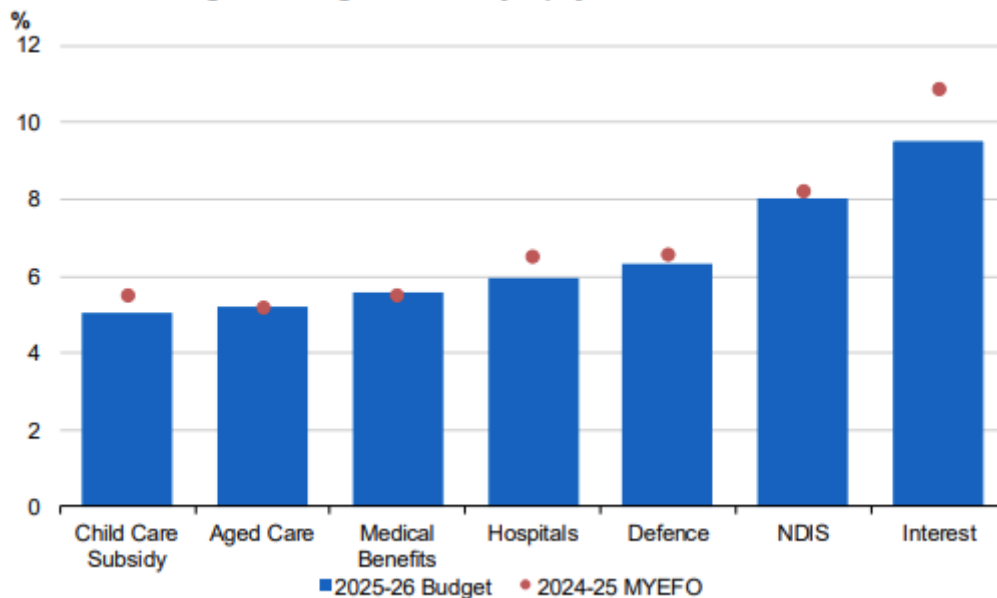


Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

Interest is the fastest growing expense

The NDIS is expected to continue to grow strongly as well

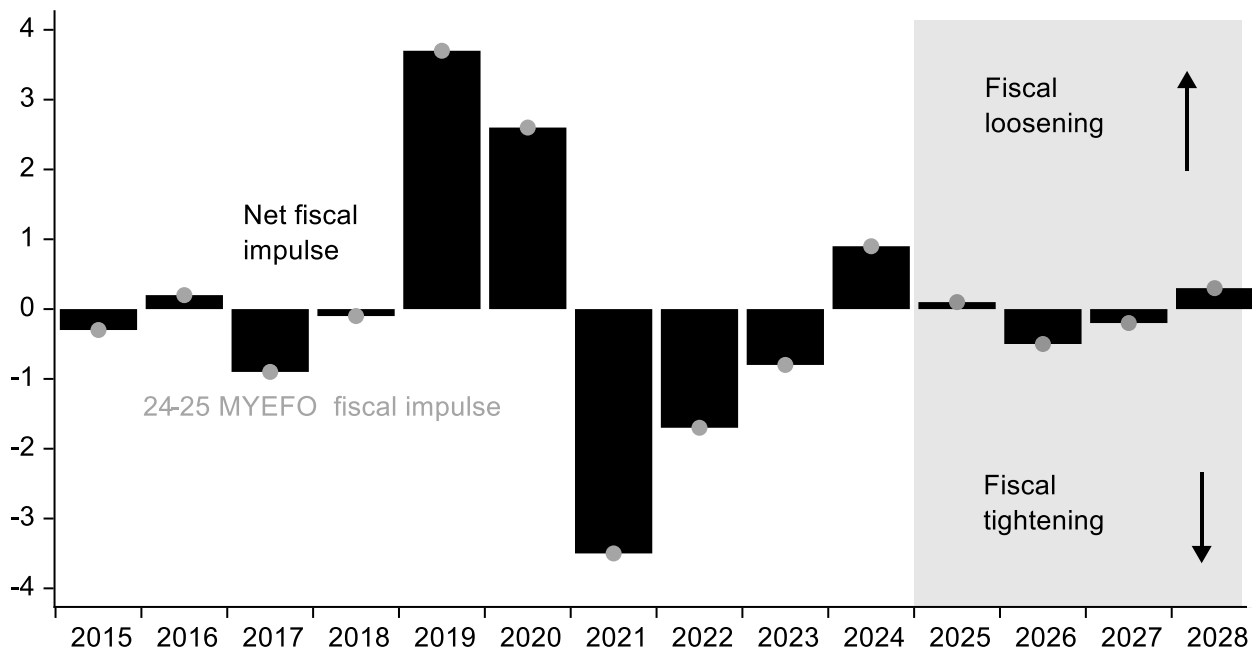
Chart 3.8: Average annual growth in major payments over the medium term



The fiscal impulse is broadly neutral and even restrictive next year

This follows a big support this year

Fiscal Impulse (% GDP)



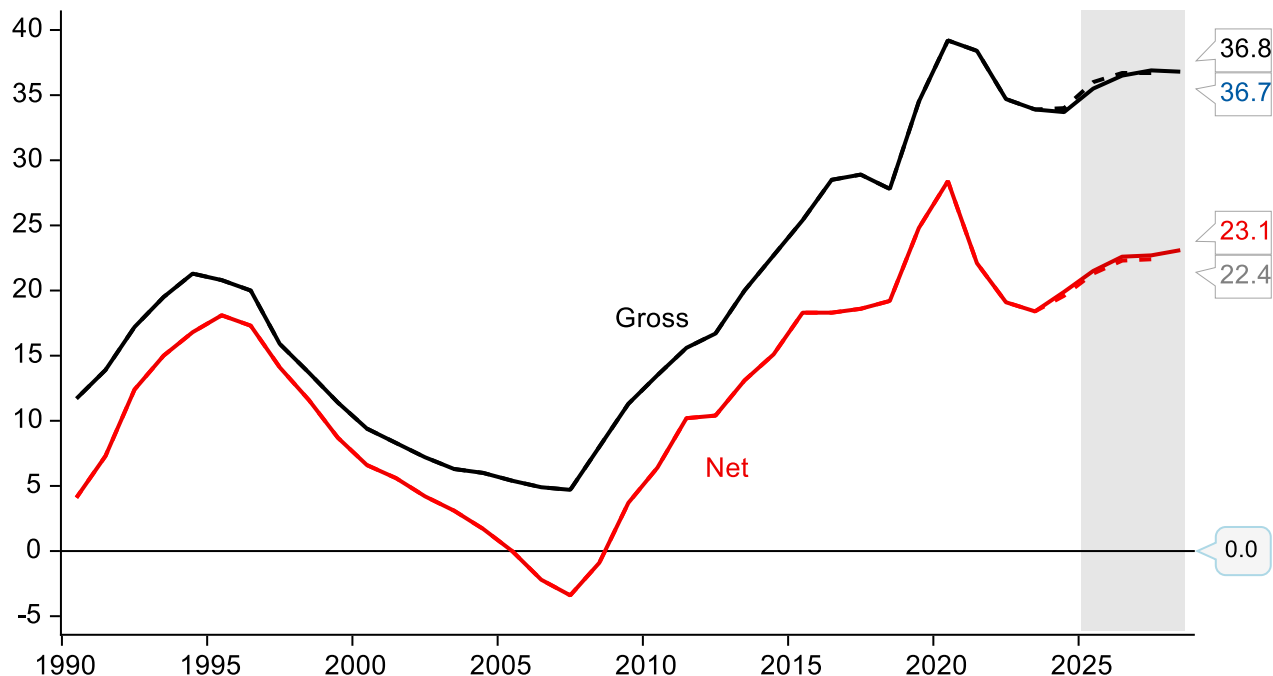
Source: National Australia Bank, Commonwealth Treasury, Macrobond

X axis shows first year of the financial year. Impulse based on change in 'structural' and temporary budget components

The debt burden is increasing alongside the deficit

But remains very low by international standards

Federal budget: debt measures (% of GDP)

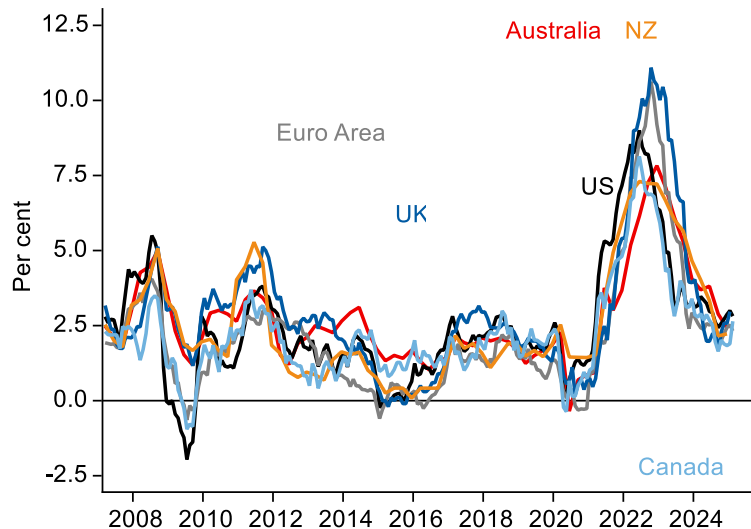


Source: National Australia Bank, Australian Department of the Treasury, Macrobond, Accountwise

Globally inflation has eased and rates are starting to come down

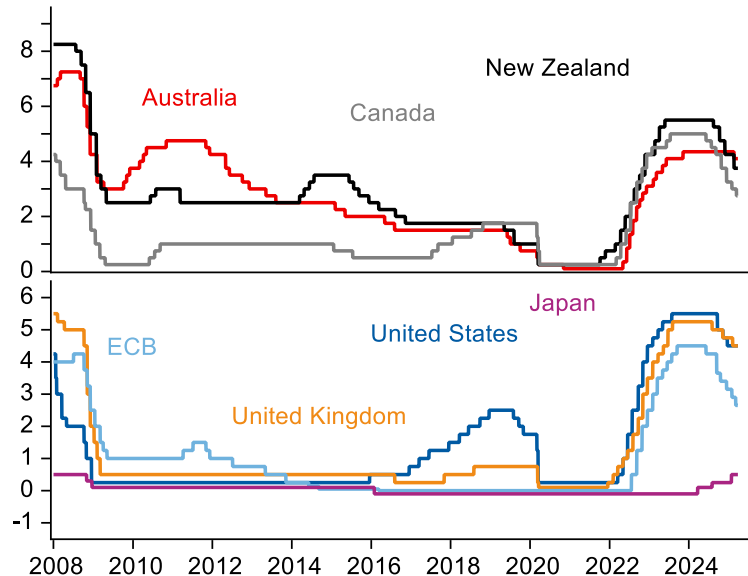
Policy easing has responded to spare capacity within economies, with more aggressive cuts in Canada and NZ

Headline inflation by country (Year-ended, %)



Source: National Australia Bank, Australian Bureau of Statistics, U.S. Bureau of Labor Statistics (BLS), Eurostat, U.K. Office for National Statistics (ONS), Statistics New Zealand, Statistics Canada, Macrobond

Monetary Policy Rates (%)

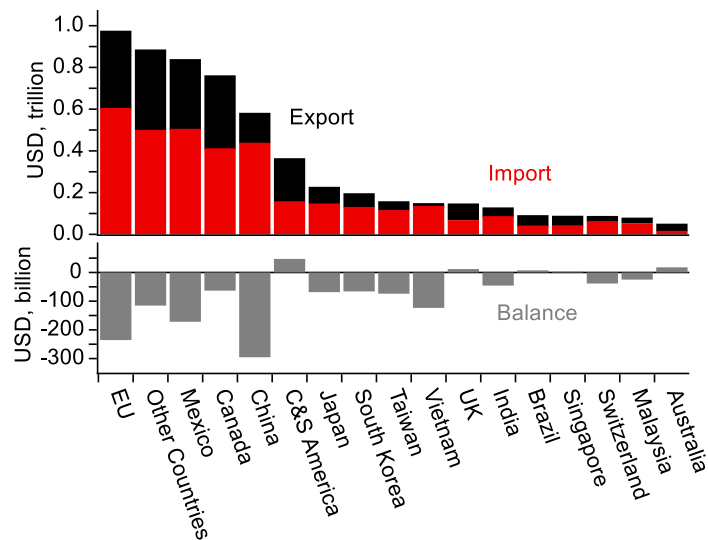


Source: National Sources

Tariffs are a global risk but Australia has only small exposures to the US

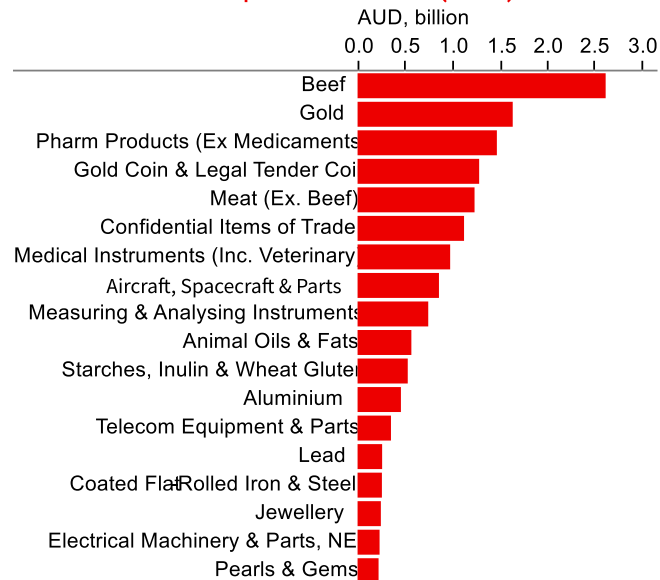
However, highly uncertain second round effects could have a notable impact

US Bilateral Goods Trade (2023)



Source: National Australia Bank, U.S. Census Bureau, Macrobond

Australia Goods Exports to the US (2023)

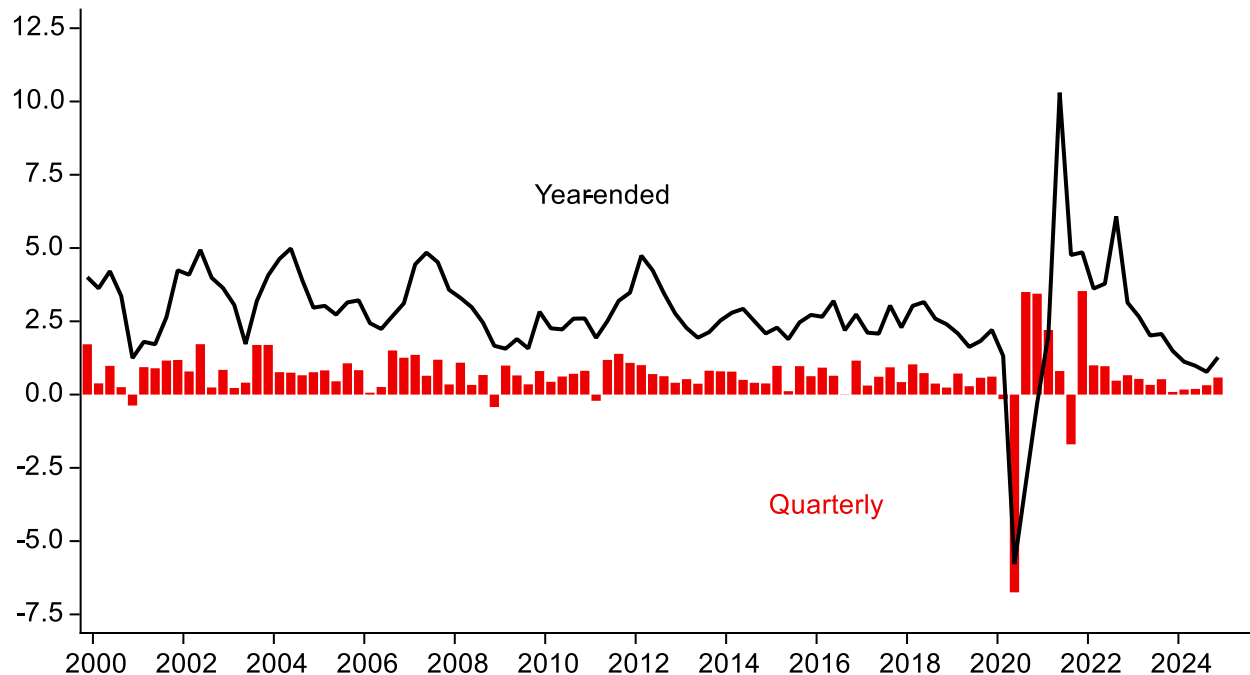


Source: National Australia Bank, DFAT

GDP growth has weakened, though the economy has been resilient

Consumption growth has been a key dynamic, public spending has been a key support

Real GDP Growth (%)

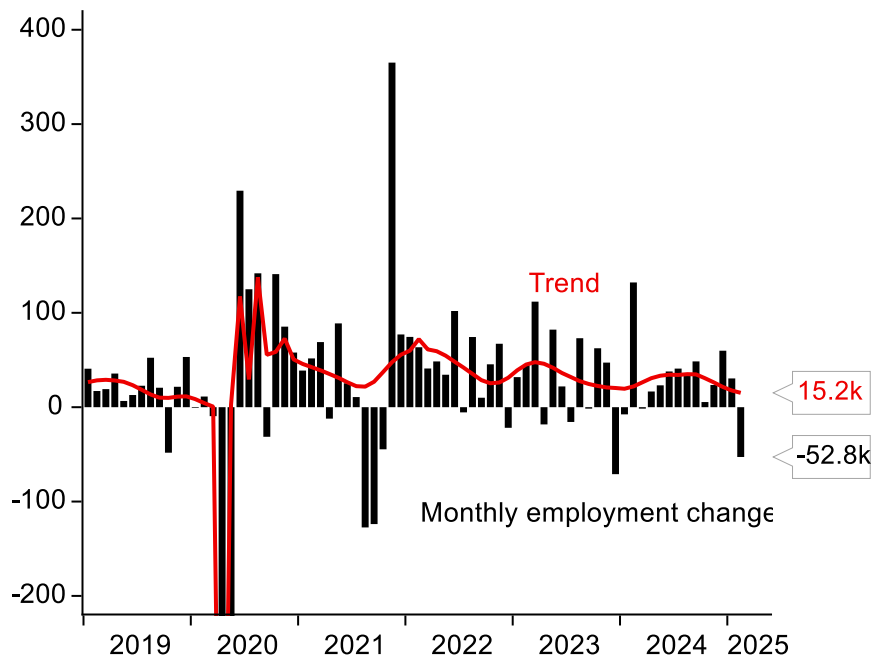


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

The labour market has remained resilient

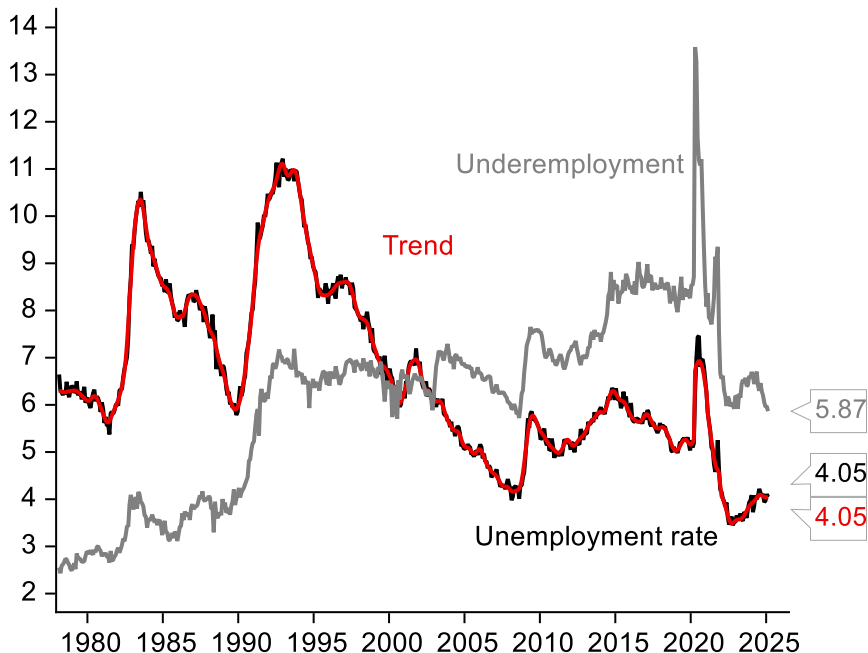
Unemployment up 0.6ppt from its 2022 low, but remains 1ppt below pre-pandemic

Australian Employment



Source: National Australia Bank, ABS

Australia Underutilisation

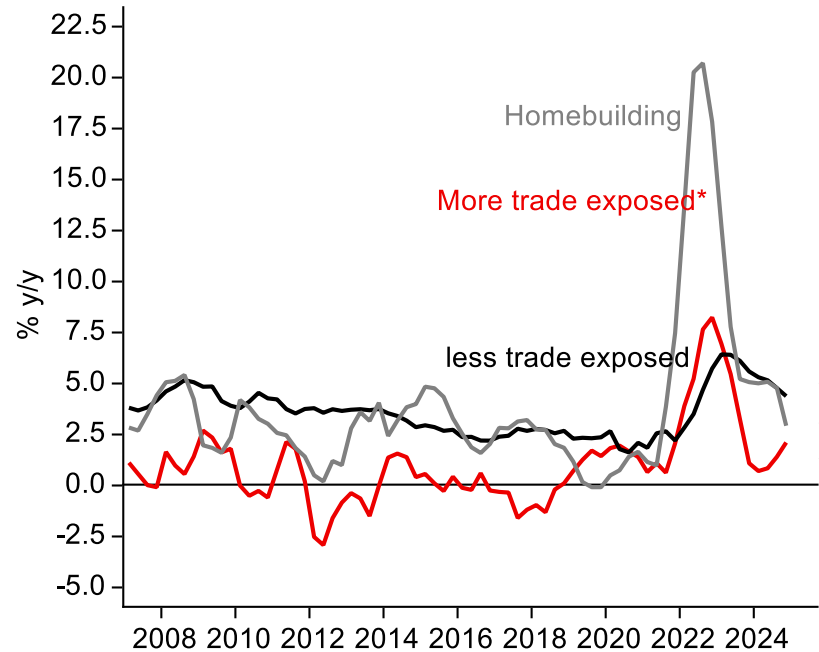


Source: National Australia Bank, ABS

Inflation has moderated more quickly than expected

Housing components are a key dynamic, while services inflation is still high

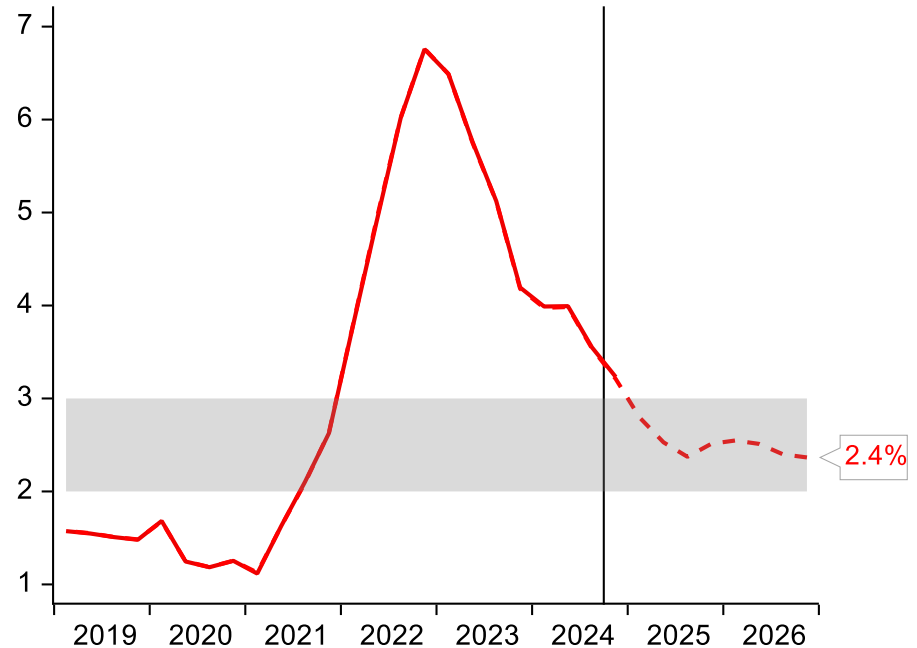
Australia Consumer Prices



*excluding automotive fuel, which is volatile

Source: National Australia Bank, Australian Bureau of Statistics

Underlying inflation forecast (% y/y)

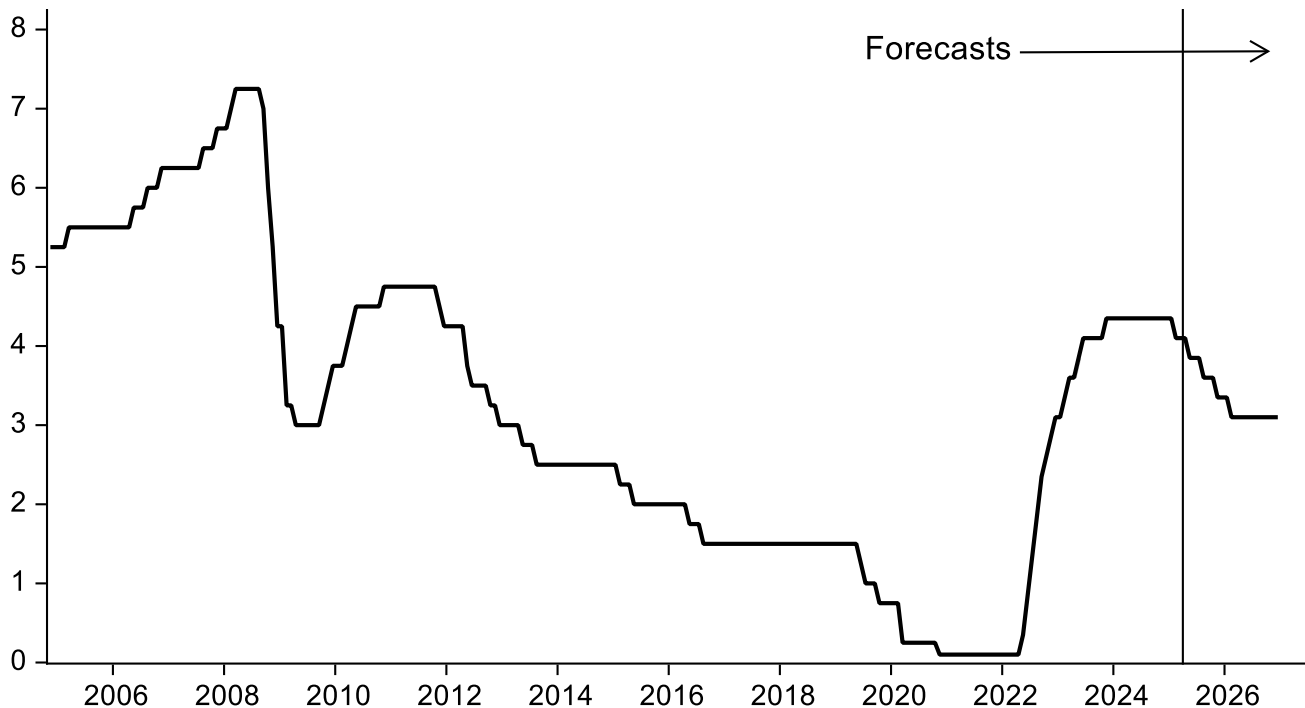


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Account in house

Interest rates have started to fall

But the process will be gradual

Cash rate target (%)



Source: National Australia Bank, RBA