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IBISWorld Special Report: Federal Budget 2022-23

April 2022

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Introduction

The annual federal budget has arrived early this year to make way for the upcoming Federal Election, which is expected to take place in May 2022. The primary theme of the 2022-23 Federal Budget is creating more jobs and reducing the number of people on welfare payments.

As it stands, the current economic environment may offer the Federal Government a head start in achieving these outcomes. In February 2022, the [unemployment rate](#) sat at 4.0% – the lowest it's been since August 2008 – while the participation rate reached a record high of 66.4% in the same month. Assuming the Australian economy continues to recover at its current pace, the unemployment rate is projected to drop to lows not recorded since 1974, totalling an estimated 3.75% in September 2022. As a result, [wages](#) are expected to grow faster than they have in nearly a decade.

The 2022-23 Federal Budget states Australia's budget deficit at \$78.0 billion – lower than the forecast value of \$98.9 billion in the December 2021 budget update. The underlying cash balance is anticipated to improve from a deficit of 3.4% of GDP in 2022-23 to a 1.6% deficit in 2025-26, driven mostly by higher tax receipts and lower unemployment benefit payments. Australia's gross debt is estimated at \$977.0 billion in 2022-23, accounting for 42.5% of the nation's GDP.

Despite the economic shocks caused by the COVID-19 pandemic, the recent floods in New South Wales and Queensland, and the Russia-Ukraine conflict, Australia's economic recovery has been robust. Real GDP is anticipated to grow by 4.25% in 2021-22 and 3.5% in 2022-23, driven by strong momentum in the labour market, renewed [consumer spending](#), and Australians' collective efforts in rolling out the COVID-19 vaccine.

Major Economic Parameters

	Outcome			Forecast		
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Real GDP*	1.5	4.25	3.5	2.5	2.5	2.5
Nominal GDP*	4.4	10.75	0.5	3	5.25	5
Employment**	6.5	2.75	1.5	1.5	1	1
Unemployment rate (June quarter)	5.1	4	3.75	3.75	3.75	4
Consumer price index**	3.8	4.25	3	2.75	2.75	2.5
Wage price index**	1.7	2.75	3.25	3.25	3.5	3.5

Note: *Annual percentage change

**Through the year growth to June quarter

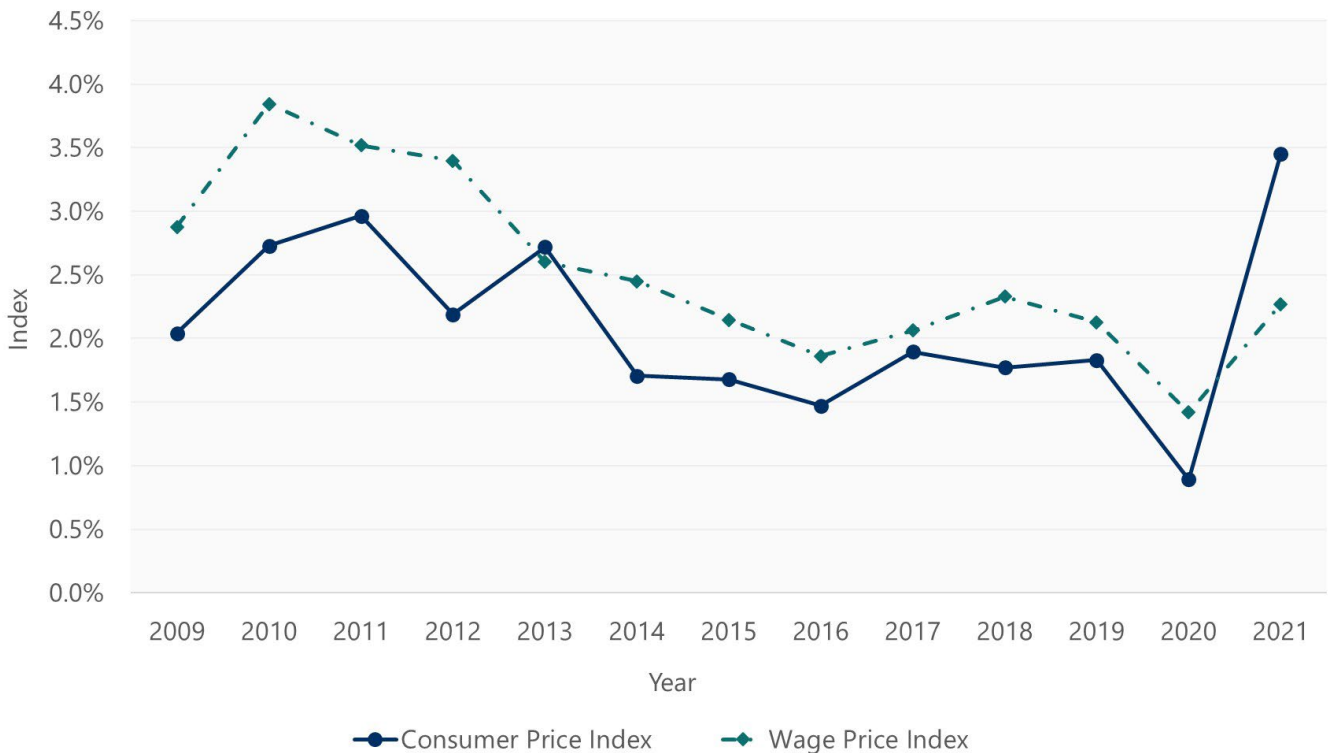
Source: Australian Government Budget 2022-23 - Budget Paper No. 1

Cost of living

Australians have faced increasing cost of living pressures over the past year. [Inflation](#) increased to 3.5% in 2021, while wages only grew by 2.3% over the year. The ongoing Russia-Ukraine conflict has also caused [agricultural](#) and [energy commodity](#) prices to increase, lifting the cost of living for consumers as food and transport costs rise.

Wages versus inflation: A tale of two indices

Cost of living pressures have increased over the past year, with inflation increasing to 3.5% in 2021.



Source: ABS 6401.0 Consumer Price Index, Australia
ABS 6345.0 Wage Price Index, Australia



The 2022-23 Federal Budget includes several measures targeted at easing cost of living pressures for consumers. These measures include:

- Reducing fuel excise rates by 22.1 cents per litre for six months
- Introducing one-off payments of up to \$420 for people earning under \$126,000
- Introducing one-off payments of \$250 for age pensioners and other welfare recipients
- Expanding the New Home Guarantee for first-home buyers
- Expanding the Family Home Guarantee for single parents
- Introducing a Regional Home Guarantee for non-first home buyers in regional areas

Let's take a look at each of these initiatives in further detail.

Fuel prices

[Retail petrol prices](#) have increased by 21.9% since the start of February 2022, with Australians paying approximately \$2.00 per litre on average over the past month. As part of the 2022-23 Federal Budget, the government has cut the fuel excise by 22.1 cents per litre in response to the rising cost of living. This measure came into effect on 30 March and is set to last for six months.

According to the ACCC, government taxes make up approximately 36% of what consumers pay for petrol. These taxes include 10% GST and the fuel excise, which is indexed twice a year to CPI and sat at 44.2 cents prior to the budget release. The Federal Government's temporary reduction will see the excise halved to 22.1 cents per litre, which will translate to lower prices at the pump over the coming weeks.

Cheaper petrol is good news for Australian motorists, but reducing the fuel excise is expected to limit [fuel retailers'](#) revenue growth in the current year. However, lower prices are also likely to support fuel sales volumes and encourage an increase in road vehicle-kilometres travelled. Still, these sales will likely have a limited effect on industry profitability, with fuel retailers making approximately 2 cents profit per litre sold.

[Fuel refiners](#) will also benefit from increased fuel volumes, while transport companies, such as [road freight operators](#) and [delivery drivers](#), and passenger transport firms, such as [taxi operators](#) and [rideshare platforms](#), are expected to benefit from lower fuel costs. The cut to the excise will also reduce purchase costs for other heavy users of fuel, such as [farmers](#) and [mining companies](#). An increase in road transport activity is also projected to benefit [automotive parts retailers](#) and [mechanics](#), as Australians use their vehicles more frequently.

Support payments

The Federal Government has not extended the \$1,080 low and middle income tax offset (LMITO) beyond 2021-22. However, the LMITO has been increased for the current year, with a one-off bonus of up to \$420 for low and middle income earners. This increase effectively boosts the LMITO to \$1,500, and is expected to provide additional support to approximately 10 million Australians. Under the 2022-23 Federal Budget, 6 million Australians are also expected to benefit from a one-off, tax-exempt payment of \$250 for pensioners and other welfare recipients.

These one-off payments are intended to help offset rising cost of living expenses for consumers. In determining the size of these support payments, the Federal Government wanted to avoid further cost of living increases. As a result, these measures aren't expected to dramatically affect consumer spending.

House hunting

[Housing affordability](#), particularly for first-home buyers, is expected to be a hot topic at the upcoming federal election. It's easy to see why: House prices have jumped over the past year, increasing by 23.7% in calendar year 2021.

Under the 2022-23 Federal Budget, the government is set to expand the New Home Guarantee scheme, which allows first-home buyers to obtain a home loan with as little as 5% deposit, from 10,000 to 35,000 guarantees per year from 1 July 2022. The Federal Government is also set to expand the Family Home Guarantee, which helps eligible single parents to purchase a home, and introduce a new Regional Home Guarantee to support non-first home buyers in regional areas.

While these measures are likely to help some home buyers get on the property ladder, they are likely to have a modest effect on overall housing affordability, with increased demand due to the schemes likely to place further upward pressure on residential housing prices. The expansion of these schemes is likely to provide some support for the [number of housing transfers](#), supporting demand for [real estate agents](#) and [online real estate advertising platforms](#). However, [borrowing costs](#) are projected to rise over the coming year as the Reserve Bank moves to increase the [cash rate](#), which is expected to cause [residential housing prices](#) to fall in 2022-23.

Infrastructure

Infrastructure spending is a clear focus of the 2022-23 Federal Budget, with an emphasis on developing regional Australia. The budget lays out measures including establishing new projects and cash injections to existing projects, which are anticipated to offset pandemic-induced downturns in the [Construction](#) sector. Heavy public investment is forecast to limit future reductions in activity and job losses in the wider sector brought on by interest rate increases, which are forecast to hit before the end of 2022-23.

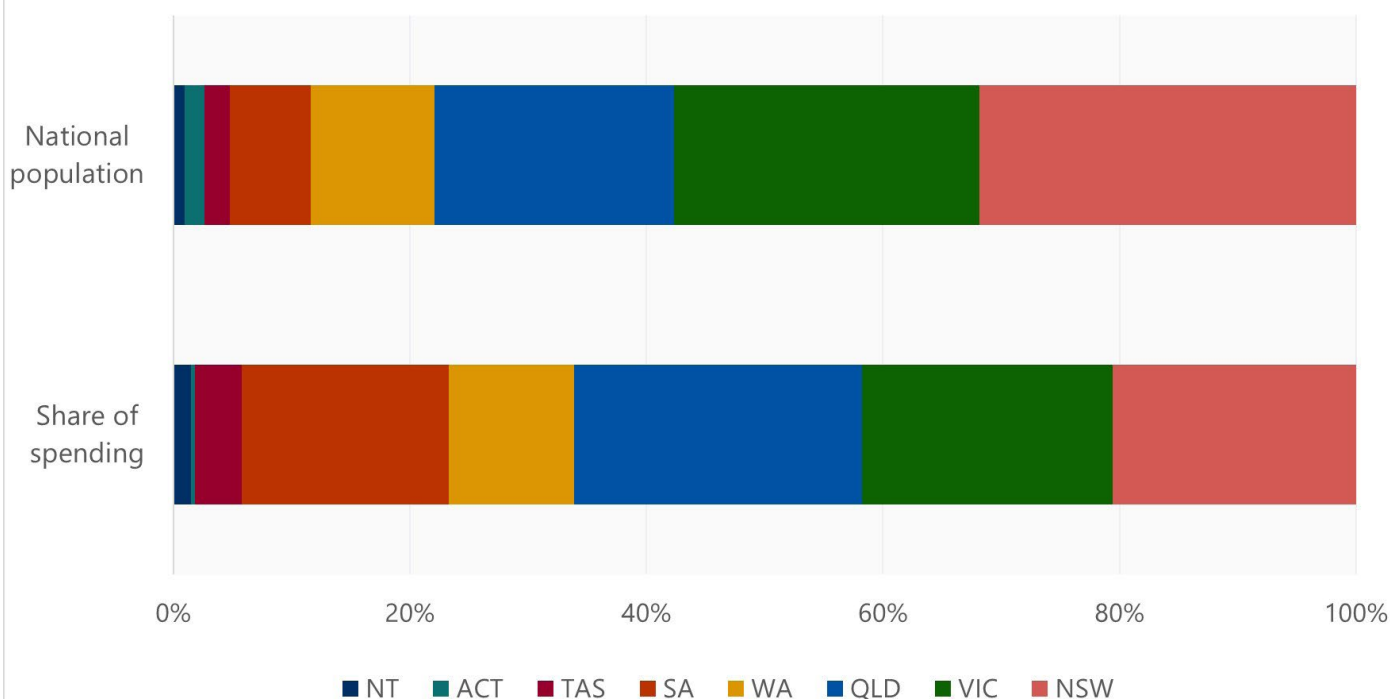
Road and rail

The government has earmarked \$17.9 billion for priority road and railway infrastructure, with the proposed investments likely to create jobs and boost activity in the [Road and Bridge Construction](#) and [Railway Track Construction](#) industries over the next decade. Key projects and contributions include:

- \$3.1 billion for Melbourne’s Intermodal Terminal Package
- \$2.26 billion for Adelaide’s North-South corridor
- \$1.6 billion for a rail extension to connect Brisbane and the Sunshine Coast

On the Move in WA, SA and QLD

States with high mining and agricultural activity benefited the most from rail and road outlays in the 2022-23 budget.



Sources: Federal Budget 2022-23, the Australian Financial Review, ABS



Unsurprisingly, the COVID-19 outbreak has influenced infrastructure spending, with supply chain disruptions brought on by the pandemic motivating strong investment. Priority road and rail development is aiming to futureproof Australia’s supply veins and arteries against similar disruptions and is anticipated to support [Road Freight Transport](#) and [Rail Freight Transport](#) industry expansion.

The freight infrastructure improvements are likely to drive down transports costs and boost trade volumes for operators involved in [mining](#) and [agriculture](#) in particular.

Heavy lifting

The budget includes plenty of other large infrastructure projects that are forecast to benefit the [Heavy Industry and Other Non-Building Construction](#) industry, the largest of which include:

- \$7.1 billion over 11 years from 2022-23 as part of the Energy Security and Regional Development Plan (ESRDP) to develop infrastructure and diversify economies in key regional hubs, including the Northern Territory and North and Central Queensland. Funding is primarily going to boost export capabilities and [logistical](#) support for industries in these hubs, and foster reliance on renewable energies like hydrogen.
- \$5.4 billion for Hells Gates Dam (Queensland), which is set to improve irrigation and boost yields for [sugarcane](#) and [cotton](#) farmers in the region once completed.
- \$1.3 billion over six years from 2021-22 to improve regional [telecommunications](#) and mobile coverage.
- \$680.6 million over 11 years from 2022-23 to revitalise south east Queensland in preparation for the 2032 Olympics.

The [Russia-Ukraine conflict's effects on global energy and gas prices](#) have driven fears over Australia's energy and gas security. To ease these concerns and push down domestic gas prices, the government has allocated \$50.3 million over two years from 2022-23 for infrastructure to support [Australian gas supply](#). Businesses in a range of industries are forecast to benefit from lower utility costs as a result of the investment.

Opposition promises

If elected this May, the Australian Labor Party has promised to deliver its own budget by December or sooner. The opposition has indicated that it will support key budget measures regardless of the election outcome. However, the shadow treasurer, Jim Chalmers, has flagged that the opposition is willing to outspend the incumbent Government in key areas of infrastructure, including the National Broadband Network, and electricity grid investment.

Community care

Health care

The Federal Government has promised big spending on health care in the 2022-23 Federal Budget. The government has allocated \$132.0 billion to the sector, up from \$121.4 billion the previous year.

Funding fundamentals

[Public hospital](#) funding is set to increase under the plans, accounting for \$28.1 billion in 2022-23 and \$149.8 billion over the next five years. [Private hospitals](#) are also expected to benefit through a 10.4% increase in funding to [private health insurance](#) over the five years through 2025-26, which will increase their customer base.

[Federal funding for Medicare](#) is expected to increase by \$7.3 billion compared to last year, to continue guaranteeing Medicare services for all. The increase also improves access to services such as after hour [GP services](#), [allied health services](#), and maternity services provided through hospitals and GPs in rural and regional areas.

New and amended medicines are set to be added to the [Pharmaceutical Benefits Scheme \(PBS\)](#), with a \$4.2 billion price tag. While demand for medication is usually inelastic, these changes may support demand for some treatments. Higher demand boosts revenue for pharmaceutical [manufacturers](#) and [retailers](#), while additions to the PBS reduce expenses for consumers. The additional funding is also expected to reduce the PBS Safety Net threshold by:

- \$85.00 for general patients, down to \$1,457.10
- \$81.60 for concession card holders, to \$244.80

The government has also set aside specific funding for a number of women's health concerns. The budget promises \$58.1 million to support diagnosis and primary care support for people living with endometriosis.

COVID-19

With the COVID-19 pandemic not expected to disappear any time soon, the budget lays out an additional \$4.2 billion in funding in preparation for another variant outbreak in 2022-23. This includes \$1.0 billion for vaccine rollouts, including booster shots, plus \$2.6 billion to replenish PPE stockpiles and Rapid Antigen Tests for vulnerable care settings, such as aged and disability care. This funding is likely to support demand for medical and surgical equipment [manufacturing](#) and [wholesaling](#).

Mental health

[Mental health](#) is a key focus of this budget, with \$3 billion allocated to rolling out Stages 1 and 2 of the National Mental Health and Suicide Prevention Plan. Key investments include:

- \$63.6 million for Lifeline and digital mental health services, which is likely to support demand for [telehealth services](#)
- \$16.2 million for youth mental health support, including through Headspace services
- \$206.5 million for young people with severe mental illnesses to access mental health support through Early Psychosis Youth Services
- \$32.9 million to provide mental health services to victims of natural disasters and other emergencies

Aged care

Following the Royal Commission into Aged Care Quality and Safety, the 2022-23 Federal Budget has allocated \$18.8 billion over four years to continue implementing key findings. \$345.7 million is set aside to create onsite pharmacy services to improve medication management in [residential aged care](#). The royal commission also focused on aged care workers. In a bid to increase employment in the sector, the government has allocated \$48.5 million to subsidise 15,000 [vocational education and training](#) places. However, the budget includes no permanent increase in pay for aged care workers, constraining growth in the sector's average wage.

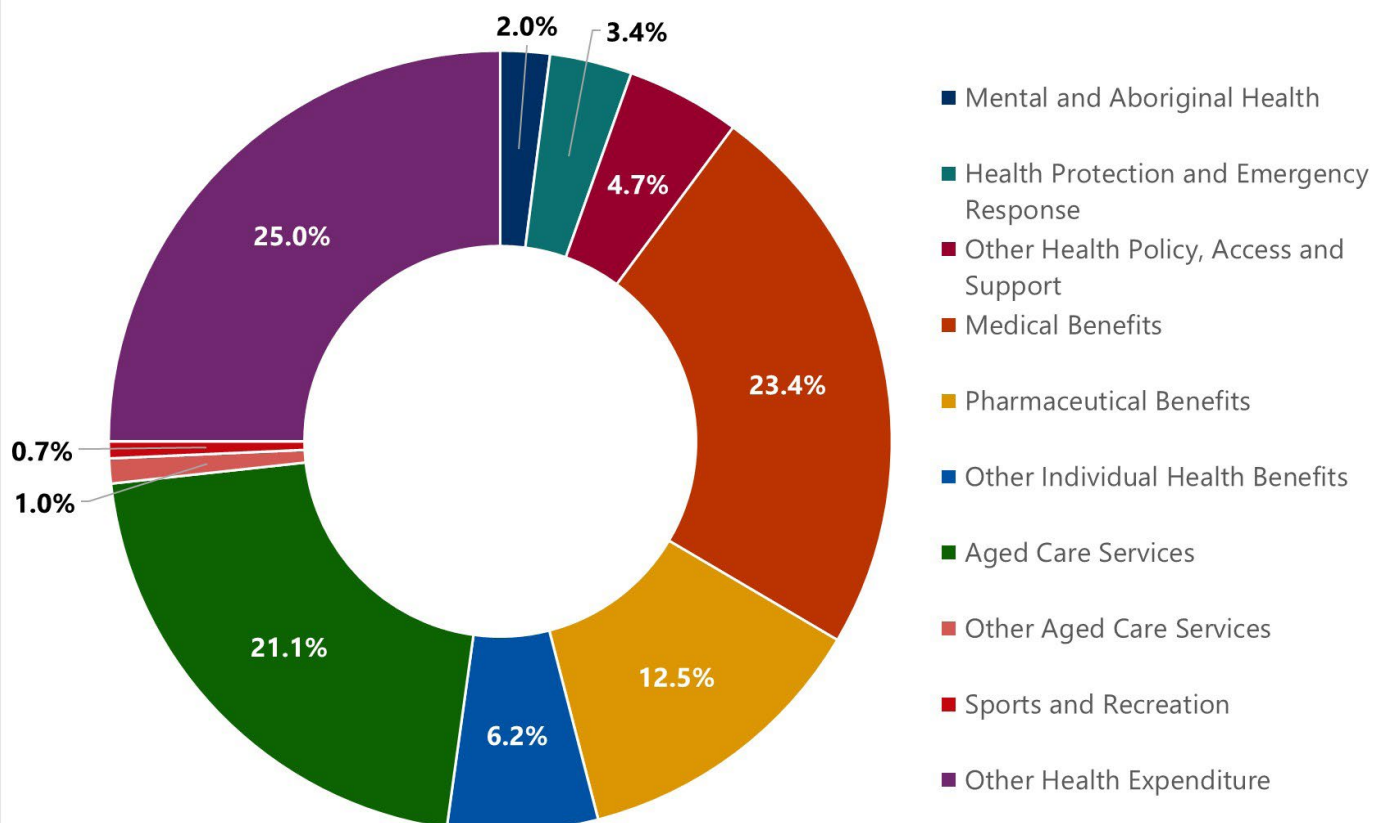
The pandemic is also front of mind in the aged care sector, with \$1.4 billion in funding allocated specifically for the response to the COVID-19 pandemic. These investments are likely to be fast-tracked to make important preparations for future outbreaks. Eligible aged care workers will receive up to \$800 as a bonus for working through the pandemic. The bonus was announced in February and is planned to incentivise returning to the workforce and reward those who worked through the Omicron outbreak, with eligible workers set to see pay day in March and April 2022.

Other pandemic-related investments include:

- A \$124.9 million extension to the Aged Care Preparedness Grant
- \$22.1 million for in-house [pathology testing](#)
- \$37.6 million for infection prevention and control
- \$50.4 million to train nurses to provide vaccinations
- \$1.09 billion for ensuring appropriate PPE

Health Habits

The Federal Government has allocated \$132.0 billion to health care in the 2022-23 Federal Budget.



Source: Australian Federal Budget 2022-23



Child care

The 2022-23 Federal Budget includes the previously announced Child Care Subsidy (CCS), which has been in effect since 7 March 2022. CCS provides financial assistance to access high-quality [child care](#) and replaces the Child Care Benefit. The subsidy is expected to save 250,000 families \$2,200 a year and help tackle the increasing demand for child care services. The government has also allocated \$19.4 million to establish 20 childcare centres in areas where no or minimal services are currently available. The budget also includes \$40.0 million in funding over the next four years for [preschoolers](#). Children are expected to have access to 15 hours of preschool a week at an estimated value of \$1,340 per child. This funding is expected to increase the [number of preschool students over the same period](#).

Changes are also on the way for Paid Parental Leave (PPL). The government is merging the two-week Dad and Partner Pay into the current PPL scheme and allowing parents to decide how to split the 20 weeks between them, while single parents will have access to the full 20 weeks. Currently, the primary carer can take 18 weeks and a secondary carer can take two. The scheme is budgeted to cost \$346.0 million and may ease some pressure on demand for child care, partly by expanding eligibility.

Environment

With the 2022-23 Federal Budget, the government plans to cut climate spending from \$2.0 billion to \$1.3 billion over the three years through 2025-26, representing an average decline of 13.3% per year.

	2022-23	2023-24	2024-25	2025-26
Climate spending (\$b)	2.0	1.9	1.5	1.3
% change		-5.0%	-21.1%	-13.3%



Source: Australian Government Budget 2022-23 - Budget Paper No.1

Despite these cuts, the budget outlines the government's plan to deliver net zero emissions by 2050, while preserving Australian jobs and creating opportunities for industries and regional Australia. Key investments include:

- \$2.5 billion for projects through the Emissions Reduction Fund
- \$2.0 billion for further initiatives through the Climate Solutions Fund
- \$1.5 billion to develop Australia's clean hydrogen energy industry
- \$1.0 billion to protect the Great Barrier Reef

However, the budget does not include direct funding for renewable energy generation projects.

Let's examine some of the key environmental policies outlined in the 2022-23 Federal Budget.

The Great Barrier Reef

The Federal Government has allocated \$1.0 billion towards supporting the Great Barrier Reef over the next nine years from 2021-22. This funding includes:

- \$579.9 million towards improving the reef's water quality
- \$252.9 million towards improving how Australia maintains and protects its reef ecosystems
- \$95.6 million towards researching and developing resilience and adaption strategies

These planned investments are likely to support Australian [tourism](#) through improving the Great Barrier Reef's health and maintaining its attractiveness as a popular tourist destination. A greater number of tourists will also likely assist [accommodation and hospitality](#) providers in Queensland as they continue to recover from the COVID-19 pandemic. These investments are also likely to increase demand for scientific and environmental services, such as the [Scientific Research Services](#) and [Environmental Science Services](#) industries.

Energy and emissions reductions

The Federal Government is set to provide \$446.1 million over the five years from 2021-22 to secure Australia's energy supply and ensure it remains affordable, while reducing the cost of adopting low emissions technologies. This funding includes:

- \$247.1 million in private sector investment for low emissions technologies, including hydrogen
- \$50.3 million over the two years from 2022-23 for gas infrastructure projects

These investments will likely support demand for [oil and gas extraction](#) businesses and hydrogen

operators. The potential cost reduction in low emissions technologies is also likely to reduce [electricity prices](#), helping Australians to save on their [electricity bills](#).

Australia and Antarctica

The Federal Government has also invested \$839.9 million towards strengthening Australia's presence in Antarctica. This funding includes \$364.5 million over the five years through 2026-27 for scientific leadership and international collaboration in Antarctica; of which \$136.6 million will support inland travel, environmental protection and other core activities. These investments will also likely support scientific research services.

Circular waste economy

The Federal Government is set to provide \$83.1 million over the five years from 2022-23 to transform Australia's waste and recycling sector and accelerate the nation's shift towards a circular waste economy. This funding includes \$60.4 million over the four years through 2026-27 to increase Australia's domestic recycling capabilities under the [Recycling Modernisation Fund](#). Although [waste recycling businesses](#) will likely benefit from this initiative, [landfill operators](#) are likely to be disadvantaged as waste is diverted from landfills.

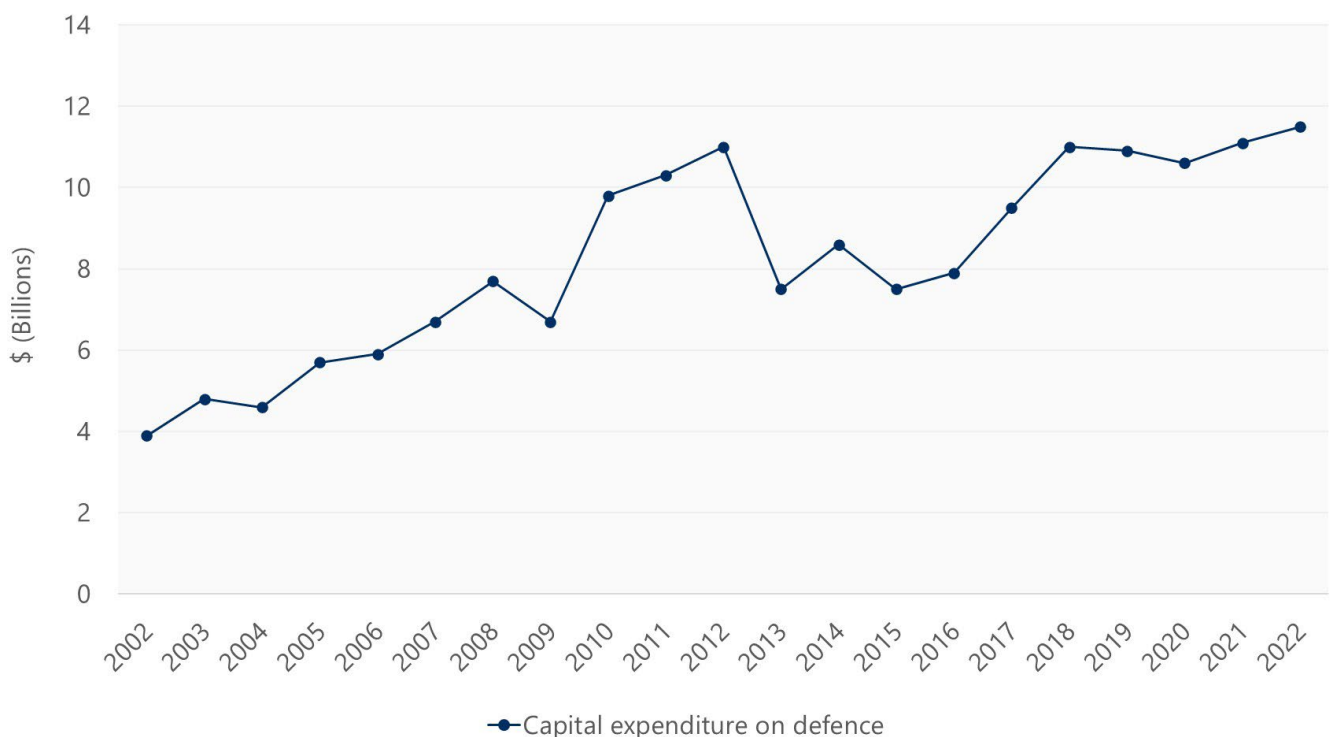
Defence

Defence is big business this budget season, with 2022-23 total funding set to again pass 2.0% of GDP. This trend isn't likely to slow any time soon. The [defence sector](#) and contractors in related industries are gearing up for \$270.0 billion in new defence capability investment over the next decade.

Rising geopolitical tensions, including in Australia's own backyard, are prompting major capital spending on defence. The budget builds on the long-term goals outlined in the [2020 Defence Strategic Update](#) and [2020 Force Structure Plan](#).

Australia's Capital Expenditure on Defence

Defence has become a high priority, benefiting from major capital spending over the past five years.



Source: IBISWorld, Business Environment Profiles - Australia, Capital Expenditure on Defence



The Russia-Ukraine conflict looms large over the budget. In 2021-22, \$156.5 million in total assistance is being sent to support Ukraine, including:

- \$91.0 million in military assistance, such as medical aid, weapons and missiles.
- \$65.0 million in humanitarian aid through international organisations.

Cyber focus

As virtual battlegrounds become increasingly important, the Australian Signals Directorate's (ASD) cyber and intelligence capabilities will be getting revamped. Over the decade through 2030-31, the government plans to invest \$9.9 billion through the REDSPICE (Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers) package. REDSPICE is estimated to create 1,900 jobs in the process, with the ASD doubling in size.

This growth is likely to flow on to defence-adjacent IT industries, boosting demand for [cyber security](#), data science and related industries. [Higher education](#) institutions are also set to benefit, with defence partnerships boosting funding and employment opportunities in artificial intelligence (AI), data science, data engineering and [cyber security](#).

AUKUS

Meanwhile, the trilateral AUKUS agreement with long-time allies the United States and United Kingdom is set to [boost recruitment](#) over the long term. The Australian Defence Force (ADF) is looking to recruit an additional 18,500 troops by 2040, costing an estimated \$38.0 billion. The defence sector's permanent workforce is on track to pass 100,000, including almost 80,000 ADF personnel, by 2040.

AUKUS priorities in 2022-23 include AI, undersea capabilities, quantum technology and cyber capabilities. As part of the AUKUS agreement, Australia will acquire technology to build eight nuclear submarines. Big-ticket budget items include a [new submarine base](#) planned for the east coast, costing an estimated \$10.0 billion over two decades. Brisbane, QLD, Newcastle, NSW, and Port Kembla, NSW are the preferred locations being considered, as they allow deterrence against potential threats.

Seafaring

The [National Naval Shipbuilding Enterprise](#) represents defence and industry's complete overhaul of naval shipbuilding. As part of this:

- A new dry-dock berth in Henderson, Perth, will be built for \$4.3 billion.
- A renewed focus on the high seas is likely to support Australian [shipbuilders](#). This is good news for local firms, as construction and maintenance contracts with the Royal Australian Navy (RAN) provide significant revenue.
- Inputs used for shipbuilding are likely to be highly sought after, with greater need for [iron and steel forging](#), [industrial machinery](#) and [electrical equipment manufacturers](#).
- Greater naval activity is likely to provide opportunities for [navigation, towage and other water support services](#).

Outlook

The 2022-23 Federal Budget attempts to reduce the debt accumulated during the COVID-19 pandemic without making significant cuts that could adversely affect Australia's economic recovery. While the measures laid out in this year's budget are expected to put the nation back on the path of debt reduction, Australia is unlikely to balance its budget within the decade, with national gross debt expected to surpass the \$1 trillion mark in 2023-24. Nevertheless, the Federal Government has focused on reining in the nation's spending following the unprecedented amount of support payments provided during the COVID-19 pandemic. The 2022-23 Federal Budget reflects the government's aim to bring the country's fiscal policy closer to pre-COVID levels over the coming years.

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