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22 April 2024

Press conference, Blue Room, Canberra

Subjects: global economy, global growth forecasts in the Budget, the Budget, inflation figures on Wednesday, support for climate disclosure regime, GST, Measuring What Matters, payroll tax, investment in Western Sydney, Future Made in Australia

JIM CHALMERS:

Global factors will weigh heavily on the Budget in 3 weeks' time. The global economy is uncertain and unpredictable, fraught and fragile. There are 5 major influences coming at us from around the world which will impact us as we finalise the Budget: inflation is lingering in North America; growth is slowing in China and elsewhere; tensions are rising in the Middle East and are prolonged and dug in in Eastern Europe; supply chains are fragmenting; and the global economy is transforming. These were the central features of the discussions I had with colleagues and counterparts in Washington DC, and they are the central features of our discussions as we finalise the Budget as well.

Our concerns are focused primarily on commodity prices and revenue, the Chinese property sector and growth, Eastern Europe and supply chains and the Middle East and oil prices. Conflict in the Middle East casts a shadow over the global economy, and it does risk another spike in inflation. Petrol prices have already come up a bit this year, and a broader war in the Middle East risks making that challenge a bit harder.

Because of this international uncertainty, the Budget will downgrade forecasts for growth in most of the biggest economies that the Treasury provides a forecast for. There will be a downgrade for China, Japan and the UK, and there'll be other changes in the forecasts that we will finalise in the next couple of weeks.

The Budget will have a premium on responsibility and an emphasis on economic security and what we will see is a budget strategy which will evolve along with our challenges. We do not expect anything like the kind of revenue upgrades that we've seen in the first couple of budgets, and that, as well as challenges in the global economy but also our domestic economy, necessitates a slightly different approach. There will still be a nearer term focus on inflation, but there will be as well as that a longer term focus on economic growth.

When it comes to inflation there are, as you know, new inflation numbers out on Wednesday. The quarterly CPI will be released on Wednesday. We are making really good progress when it comes to inflation. Inflation has come off substantially since its peaks in 2022, but we know that it's not mission accomplished because people are still hurting. And you can expect to see in the Budget a focus on cost-of-living help. A tax cut for every taxpayer will be the centrepiece of the cost-of-living help in the Budget and if we can afford to do a little more than that, then those decisions will be taken in the next week or 2 as well.

In terms of our fiscal strategy, we are still aiming for a second surplus. We feel like the first surplus last year – the first in 15 years – was an important way to put downward pressure on inflation. So our objective is still a second surplus. We're not there yet. The degree of difficulty on that has come up a bit, but that is still our objective.

There will be cost-of-living help, as I said. We want to make sure that it's designed the right way to take the edge off inflation rather than add to it. We want our cost-of-living help to be part of the solution to inflation rather than part of the problem and so that will be a feature as well. And as I said before, there will be substantial investments in the future of our economy, laying the foundations of growth into the future as well.

The last issue I wanted to touch on before I took your questions is we welcome the support from the business community for our climate disclosure regime. Investors with more than \$80 trillion in assets back our plan strongly and unequivocally, this should make the Coalition think again about their opposition to our climate disclosure regime. This regime will help investors play their part in making Australia a renewable energy superpower as part of a Future Made in Australia.

We recognise and the investors recognise that the big opportunities for Australia are at the intersection of our industry, our energy, our resources base, our human capital base and our attractiveness as an investment destination as well.

A Future Made in Australia is how we line up our national security and economic security imperatives at the same time as we make ourselves an indispensable part of the global net zero economy into the future. And, once again, in addition to cost-of-living help, in addition to economic responsibility, you can obviously expect A Future Made in Australia to be a big feature of the Budget in 3 weeks from tomorrow.

JOURNALIST:

Treasurer, how concerned are you that the current GST funding model could result in New South Wales losing its AAA credit rating, and does it motivate you to change it?

CHALMERS:

Well, a couple of things about that. And as you'd expect, I engage respectfully and pretty frequently with Treasurer Mookhey and, indeed, with the Treasurers of all the states and territories. Our inclination, our preference, is to always try and work with states and territories rather than work against them. We need to recognise the pressures on all of our budgets, not just the pressures on some of our budgets.

The first thing I think to note is that decisions around the allocation of the GST are taken at arm's length by the Commonwealth Grants Commission. And it's not unusual for a state or a territory at different times in the history of the Commonwealth Grants Commission to have a different view about the allocation. It's also entirely unsurprising that the states and territories would like more money to fund their priorities. I understand that as well.

New South Wales is already receiving billions of dollars in extra funding from the Albanese Government in the form of support for health and hospitals, investment in housing and the extension of the no-worse-off guarantee as well. And that, as I said, is because we do recognise the pressure on state and territory budgets, but it would be easy but wrong to blame the government, the Commonwealth government, for those pressures. It would be easy but wrong for any state or any territory to blame the Commonwealth government for the pressures on their own budget.

When it comes to the specifics of the extra help that we're providing, the no-worse-off guarantee is worth about \$3.9 billion to New South Wales over the 3-year extension period.

New South Wales is eligible for around a billion dollars in incentive payments under the new homes bonus and we increased funding for infrastructure in New South Wales by around \$1.3 billion in the mid-year budget update over the life of the infrastructure investment program. So I respect Treasurer Mookhey. I'm not surprised nor especially troubled that he has raised these issues – he should – and my answer is what I just gave you.

JOURNALIST:

Treasurer, as you said, we're expecting quarterly inflation figures out on Wednesday. They're expected to come in about 3.5 according to economists. The monthly indicators are looking to be about 3.4 for the third month in a row. How concerned are you that we're seeing inflation flatline just above the RBA's band?

CHALMERS:

I've been encouraged by recent data on inflation here in Australia because it has come off really quite substantially since 2022. And if you take the quarterly number, for example, it's currently less than a third of what we inherited from our predecessors. Monthly, similarly a fraction of what it was when government changed hands. So we've made progress, but we'd like to make more progress. We'd like inflation to moderate further and faster than it has been and we'll see what the new numbers say on Wednesday.

We know from around the world that inflation doesn't moderate in a straight line. Headline inflation in the US and in Canada has actually ticked up in the course of last week and that reminds us that even as inflation moderates it can zig and zag on the way down and I think particularly when it comes to that monthly figure – notoriously volatile – from month to month it doesn't even measure exactly the same basket of things, and so the quarterly number is the one that matters most to us. We expect annual inflation to moderate but we'll wait and see what the numbers say.

JOURNALIST:

The Prime Minister the other day was acknowledging that young people were particularly under economic pressures and flagging there'd be help on HECS. Will the government also be considering students who are on placement – teachers, nurses – who lose a lot of income during that period. And, secondly – very quickly – the measuring things that matter report, will that be out with the Budget or later in the year?

CHALMERS:

Well, first of all on the universities accord, whether it's HECS relief or assistance for people on prac, on placements as they finalise their degrees, we are looking at both of those things for the Budget. Jason Clare is leading a heap of work when it comes to considering the recommendations of the Universities Accord. The Universities Accord is a first-class piece of work, and we are giving it the attention that it deserves. As the Prime Minister indicated last week, we do acknowledge that students are under pressure and if we can afford to do something to help on that front, that's obviously something we'll consider as we finalise the Budget.

On the wellbeing framework and Measuring What Matters, what we established last year was a timeframe for that framework which existed outside of the usual Budget timeframe, so you shouldn't expect a new framework or an update to the framework on the 14th of May – you should expect it after that. But we want to make clear between now and then what the kind of longer term arrangements are for the wellbeing framework once we bed it in and bake it into our decision-making more broadly, and so I hope to be able to say that in the coming months as well.

JOURNALIST:

Treasurer, you've warned about a deteriorating global economic situation. With this in mind, should voters expect less cost-of-living support than had initially been planned in next month's Budget?

CHALMERS:

Well, primarily the global conditions are weighing on growth and they are one of the reasons why we need to make sure that we are aligning our budget strategy with those economic conditions. We have indicated both before last week's DC trip and subsequently, including earlier today, there will be cost-of-living relief for people in the Budget. The centrepiece of that, overwhelmingly the biggest part of that, will be a tax cut for every taxpayer to help with the cost of living but we are considering additional help on top of that and if we can afford that, if it's affordable, if it's responsible, if it's meaningful and it takes some of the edge off inflation rather than add to the inflation problem, then that is attractive to us. We've just got to make all the numbers add up, and that's what the next couple of weeks are about.

JOURNALIST:

Treasurer, at MYEFO you forecast line deficits for '24–25, '25–26 of \$54 billion. Is it the right thing to do to be running substantial deficits at a time of inflation?

CHALMERS:

A couple of things about that. We have made I think really substantial progress when it comes to cleaning up the mess we inherited in the Budget – the first surplus in 15 years, getting some of those annual bottom lines down from what we inherited – that's been part of taking the edge off inflation. That's been recognised by the ratings agencies and others. I think what's required here in our fiscal strategy is something a little more nuanced. There was an almost sole focus on inflation in the first couple of budgets, and in this Budget, there will still be certainly in the near term a primary focus on inflation but as the balance of risks shift in the economy and as the opportunities shift in the world and in our own economy then our fiscal strategy will shift a little bit with it.

JOURNALIST:

Treasurer, you've raised concerns that there won't be the upgrades that we've seen previous years. But, I mean, this morning on the Singapore exchange iron ore was trading \$115 a tonne US, unemployment still well below the forecast in MYEFO. I mean, is this, I guess, an exercise in, you know, expectation management? I mean, what would have to happen for there not be to a surplus come Budget day?

CHALMERS:

I just see this as part of being upfront with people about the pressures that the economy is under and the Budget is under as a consequence and what I've tried to do over the course of the last couple of years is to front up in front of all of you and, therefore, the broader Australian community and explain the sorts of things that we're grappling with as we put these budgets together.

The iron ore price has come off substantially since the start of the year. It was more than \$130 at the start of the year. It has bounced around in the last week or 2, but for a large chunk of last month it was more like \$90 and the numbers that we tried to provide I think a week or so ago, 8 days ago, about this were that the difference between around 130 and 90 over that period was about \$9 billion off the Budget. Obviously there's been a little tick up in the iron ore price in the last few days or the last week or so. That's welcome but we're still not getting anything like what we were getting at the start of the year.

JOURNALIST:

Treasurer, how concerned are you by suggestions that the 3 and a half billion dollars that was spent tripling the bulk billing incentive is flowing straight into state coffers through [indistinct] payroll taxes, and have you lobbied your state counterparts to increase—to consider payroll tax reform?

CHALMERS:

Payroll taxes are a matter for the states but obviously we're really concerned about these reports that some of our historic investment in Medicare might be lost to payroll tax obligations in general practices. We urge, as the Health Minister has done – we strongly urge the state treasurers and premiers and health ministers to listen closely to the concerns which have been raised by the college of GPs about ways that they can work through it.

JOURNALIST:

Treasurer, you mentioned global growth prospects and a downgrade to several countries. Should we expect the same here? What about Australia's domestic growth forecasts?

CHALMERS:

We'll make our forecasts for the Australian economy clearer in time – at least by the Budget if not before. The main reason I wanted to provide you with a sense of these downgrades in the UK and Japan and China was to give you a sense of the sort of costs and consequences of this considerable uncertainty and volatility that we're seeing in the global economy.

JOURNALIST:

Just on infrastructure, is the federal government abandoning Western Sydney on infrastructure in terms of what we're now seeing is an explosion in traffic issues but the scrapping of funding for several key road projects around the new aerotropolis?

CHALMERS:

Western Sydney will be a big priority in the Budget. And we've already spent I think something like \$15 billion in Western Sydney – that's more than the Liberals and Nationals did, and we expect that investment to continue to grow. Funding for infrastructure in New South Wales went up by around \$1.3 billion in MYEFO and one of the reasons why we want to get the Budget in much better nick is so that we can afford to invest in really important parts of Australia, like Western Sydney.

I'm a huge believer in Western Sydney. I think Western Sydney is in many ways the hope of the side when it comes to the way that we want to build an economy that delivers for more people and you should expect to see that reflected in the decisions that we take in the Budget. But I say to the people of Western Sydney – you will be a big priority in the Budget on the 14th of May – tax cuts for every taxpayer, more cost-of-living help if we can afford to do that and investments in a really important part of Australia.

JOURNALIST:

Treasurer, just on housing affordability and [indistinct], has there been any further consideration given to reforming negative gearing?

CHALMERS:

No.

JOURNALIST:

Treasurer, the Prime Minister has flagged, as you know, the introduction of the Future Made in Australia Act. A lot of interest in this Act. Could you clarify for us what exactly will be in this legislation that's new?

CHALMERS:

I see the Future Made in Australia Act as a really important opportunity to impose very strict rules and frameworks over the substantial investments that we want to make in the future of energy and the future of our industries and the future of our resources base. We don't want this to be some kind of free-for-all of taxpayer money – we want to make sure it's responsible and focused and targeted and governed by really strict frameworks and that's what the Act will help us do.

JOURNALIST:

So will this governance help some bodies like the NRF make their investments or their decisions or will it create new bodies or agencies, or it just puts in place guardrails?

CHALMERS:

Part of its task will be to impose frameworks and guardrails and we'll make further announcements about the Act in due course.

JOURNALIST:

In terms of possible changes to HECS, what are you talking about here? Is this just indexation or is it something more?

CHALMERS:

We'll have more to say about that on another opportunity.

JOURNALIST:

Just—you've said the Future Made in Australia is going to be a big focus for the Budget. The fastest growing sector of the economy is the care sector. What else will we see for the care sector? Pay rises for childcare workers?

CHALMERS:

Obviously part of our considerations right now and, indeed, some of the bigger considerations as we finalise the Budget are in the care economy. We believe in a Future Made in Australia – industry and resources and energy and skills policy and our investment strategy – as a key part of future growth, but not the only part of future growth. And you're right to say that the care economy will play a big and increasing role in our economy into the future. Our focus has been getting the workforce right, making sure that people are paid properly.

Already a huge commitment to boosting aged care worker wages. Obviously there are a number of processes underway in aged care but also in early childhood education. There's our commitment to Medicare, there's our commitment to the NDIS, and you should expect to see a big focus on the care economy in the Budget not instead of a focus on a Future Made in Australia but in addition to.

JOURNALIST:

Treasurer, have we reached the point where tech billionaires can act with impunity online? Are Australia's laws and the powers of the eSafety Commissioner being shown to be toothless against Elon Musk and X?

CHALMERS:

I think Australians should be filthy about the way that Elon Musk is behaving in this respect. He should comply with our laws and I think all of us are concerned in one way or another about the capacity for social media to spread misinformation and disinformation and as the owner of one of the main platforms, he should care about that too. And so I join with all of my colleagues who have made the same sorts of points that I just made.

JOURNALIST:

Just expanding on Shane's question, Treasurer, over the next—in the Budget over the next 2 years as inflation comes back down to the midpoint of target band, when we look at the reconciliation table, should we expect that in the next 2 years the Budget will be expanding and adding demand?

CHALMERS:

You'll have to wait for Budget night for the reconciliation table.

JOURNALIST:

How are you thinking about manufacturing Australia's impact, that whole bundle of, I guess, industry policy, how that's going to affect your concerns about inflation? Does this add to inflation what you're doing? Is it neutral, will it actually do the other thing? And just a quick question on Tritium in your own state, those charging stations. Now they wanted [indistinct] money, is our understanding. Would that not have been an example of why you can misallocate public money? You would have put money into a business that is no longer viable globally?

CHALMERS:

I don't reach the same conclusion – I'll take those in reverse order. I think what we saw with Tritium is a lost opportunity for Australia. Those are the sorts of industries that we should be much more competitive in—

JOURNALIST:

[Indistinct] put money into that—

CHALMERS:

If you'd just let me finish my answer, Jake. I see it as a lost opportunity, and the future of our economy should have companies like that – more competitive companies – who are making themselves part of the global net zero economy and I think the Prime Minister has made a similar point.

I'm really pleased you asked me about inflation in the context of the Future Made in Australia. This is about increasing the capacity of our economy and as you know, the key in the medium term and the long term is to be able to grow faster without adding to inflation and I see the sorts of substantial investments that we are contemplating as investments in growth, expanding our economy, expanding our opportunities in ways that are responsible in macroeconomic terms.


There's been a little bit of rubbish, I think, said and written about the potentially inflationary impact of a Future Made in Australia. It assumes wrongly that all of the investment that we are contemplating hits the economy at once at the front end. What we're talking about is a long-term plan because these are long-term opportunities. And so even in an investment which is big and substantial, you can imagine that we are very attentive to the profile of that and this is where your question links up I think with Shane's and with Ron's. We care about not just the quantity of investment but the quality of investment. That goes to the question that Joe asked me. But we also care about the profile. And I think while inflation is lingering there is a premium on a second surplus, if we can get there, but in the later years of our budget strategy, you can imagine a much more focused emphasis on growth and growth takes investment. And, again, what links your question and, I think, Joe's question – and I said this last week or the week before – we are talking about attracting private investment, not replacing it. We're talking about incentivising private investment. We're not talking about retreating from the world or protecting ourselves from the world; we're talking about engaging with it, becoming an indispensable part of the global net zero economy and that's why I think some of the commentary has been off the mark when it comes to what we're trying to achieve here. And it's also why it's different, what we're contemplating for the future of Australia, is different to the sorts of things that were contemplated in the past.

Thanks very much.



The Hon Dr Jim Chalmers MP
Treasurer

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