Federal Election Wrap

Economic perspective

- The ruling Liberal/National Party Coalition was returned to power in the Federal Election held on May 18. On the night of the election, Prime Minister Scott Morrison claimed victory. Opposition Labor leader, Bill Shorten, conceded defeat. Bill Shorten also indicated that he wouldn’t re-contest the Leadership.

- At the time of writing, the Australian Electoral Commission [https://tallyroom.aec.gov.au/HouseDefault-24310.htm](https://tallyroom.aec.gov.au/HouseDefault-24310.htm) indicates that the Liberal/National Coalition leads in 76 seats out of the 151 seat Parliament, with the Labor Party on 69 seats. Three seats are considered “close”.

The political environment is important for business, consumers and investors.

What does it all mean?

- The ruling Coalition government has defied opinion polls and been returned to power. While there are still many seats close to call, the Coalition is expected to secure at least 75 seats in the 151-seat Parliament. So the Coalition will govern in its own right or with the support of one of the minor parties or independents. It will be some time before the Senate results are known, but the Coalition will again need to secure support from minor parties and independents to pass legislation.

- So for Australia, it is effectively the return of the status quo. Investors won’t need to work through the consequences of the Labor Party’s proposed changes to negative gearing, franking credits and taxation scales. Businesses and investors that made decisions on the basis of a Labor Party victory will need to deal with the consequences of those decisions.

- The Government’s economic strategy was effectively outlined in the April Budget. There is unlikely to be the need for a mini Budget in coming months. The Budget is already in surplus on a rolling annual basis. And both sides of politics had already agreed to tax stimulus being applied via tax offsets from July.

### Party representation - who is leading?

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Source: Australian Electoral Commission

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Economic Insights: Federal Election Wrap

- As is generally the case, elections involve new spending promises and the 2019 election was no different. And while the stimulus from the Coalition is smaller than that proposed by Labor, it will prove important and beneficial given the lack of economic momentum at present.
- Apart from the tax offset, stimulus to the housing market is also proposed from January 2020 in the form of the First Home Loan Deposit Scheme (https://www.liberal.org.au/latest-news/2019/05/12/helping-australians-buy-their-first-home). The scheme will allow eligible first home buyers with an income of up to $125,000 (or $200,000 for a couple) to purchase a home with a deposit as low as 5 per cent.

Election spending
- According to News Corporation press, campaign spending/promises by the Coalition totalled $13.869 billion (over four years) versus $98.902 billion in spending commitments from the Labor Party.
- But the formal costing of the Government’s election promises was unveiled in the Thursday before polling day.
- The Government said: “Since the Budget delivered on 2 April 2019, the Coalition has made $1.4 billion in new spending commitments over the forward estimates, building to $3.8 billion over the medium term.
- This is more than offset by a reduction in departmental funding of $1.5 billion over the forward estimates, building to $5 billion over the medium term.
- This means a re-elected Coalition Government will reduce departmental funding by $600 million less than Labor, who have announced a $2.1 billion cut to departmental funding.”
- The Government said that the net effect of “policy commitments announced since the Budget during the election campaign is a slight improvement to the budget surplus in each year of the current forward estimates period.”

Coalition Policies
- The overall plan has been summarised by the Liberal Party as follows:
  1. Create 1.25 million more jobs over the next five years.
  2. Maintain budget surpluses and pay down Labor’s debt.
  3. Deliver tax relief for small businesses and families.
  4. Guarantee increased investments for schools, hospitals and roads.
  5. Keep Australians safe and our borders secure.
- A key feature of the Government’s economic plan is tax relief and the proposals were outlined in the April Budget (https://budget.gov.au/2019-20/content/tax.htm).
- The initial stimulus will come from the tax offset. According to the Government, taxpayers earning up to $126,000 a year will receive a tax cut. For a single income family, this will mean tax relief of $1,080 each year and up to $2,160 for families on a dual income. More than 10 million taxpayers will benefit, with 4.5 million receiving the full amount (those with taxable incomes between $48,000 and $90,000). The relief is expected to be available after tax returns for the 2018-19 year are submitted in July.
- While both sides of politics committed to the tax offset, Labor did not support all the tax measures proposed for future years. Still, some of the measures are some way off and another election is likely to be fought before they are implemented.
- “From 1 July 2022, the Government will preserve the tax relief from the larger low and middle income tax offset by increasing the top threshold of the 19 per cent tax bracket from $41,000 to $45,000 and increasing the low income tax offset from $645 to $700.”

Where to for the Aussie dollar?

Where to now?

Source: CommSec
In 2024-25, the Government will reduce the 32.5 per cent marginal tax rate to 30 per cent. This will more closely align the middle tax rate of the personal income tax system with corporate tax rates and improve incentives for working Australians."

What are the implications?

- Removal of election uncertainty will allow Australians to get back to business.
- In economic terms, the Federal Budget was handed down only just over a month ago on April 2. And the updated Pre-election Economic and Fiscal Outlook report was handed down on April 17.
- Since that time not much has changed. Although the Australian dollar has softened to near US69 cents. And US-China trade negotiations continue to drag on.
- However the Reserve Bank has moved closer to cutting interest rates. Just how close will be revealed on Tuesday. Not only are minutes of the last Reserve Bank Board meeting scheduled to be released but the Reserve Bank Governor will also deliver a speech. With a number of pundits now tipping a rate cut at the June Reserve Bank Board meeting, the events on Tuesday will prove pivotal.
- The Coalition Government is set to cut taxes, the question being whether the Reserve Bank believes this is sufficient stimulus at this time or whether monetary stimulus is also necessary. Inflation remains low and wage growth is only edging modestly higher. Job growth remains strong, but the unemployment rate edged higher in April. And forward-looking indicators of the job market have softened.
- Still, the recent loss of economic momentum would have been due in part to election uncertainty. The removal of this uncertainty will allow businesses and consumers to resume spending, investing and hiring. The question is whether the Reserve Bank waits for the ‘natural’ lifting of economic activity post-election or whether it believes that an extra kick along is required.
- It is important to note that a rate cut tends to only provide a boost to those people planning new borrowings, especially to buy homes. The rate cut may reduce interest income for savers, especially renters and home owners. For those paying off home loans, a boost to income and spending is only achieved if they ask their lender to adjust the required home loan repayment in line with the rate cut.
- In recent Federal elections in Australia both the Aussie dollar and sharemarket have tended to rise in the three weeks after poll date. Since the 2019 election was called, the Aussie dollar has fallen from highs near US72 cents to US68.8 cents. And the All Ordinaries share index has lifted by around 100 points from 6,350 to 6,460.
- Removal of the uncertainty on possible changes to franking credits and negative gearing should provide support for the sharemarket. Removal of the uncertainty about the implications of a change of government will support the Australian dollar. But bigger issues are US dollar strength, US-China trade negotiations and the possibility of a domestic rate cut.