**To start where we left off in our regular issue of the Cotton Wire, the government has unveiled a $15 billion package of welfare increases, bulk-billing incentives and energy bill discounts.**

**This includes $9.5 billion in welfare increases, $3.5 billion in Medicare incentives to lift the rate of bulk-billing, and $3 billion in one-off energy bill discounts.**

**According to the Financial Review, the budget shows that since the October budget, the government has realised another $146 billion in its coffers, comprising $130 billion in revenue and $15 billion less on interest payments on debt.**

**On a net basis, the government has spent $20.6 billion of this in the budget and banked the rest, more than 80 percent.**

**The welfare increases – which involved a $4.9 billion boost to the dole, $2.4 billion for a 15 per cent increase to rent assistance, and $1.9 billion for single parents – would have a negligible impact on inflation because they were spread over four years in a $2 trillion economy.**

**The welfare increases will lift the base rate of the dole and associated payments by $40 a fortnight for 1.1 million people. Currently, JobSeeker recipients aged over 60 who have been on the dole for nine months, receive an extra $92.10 a fortnight. This will not be extended to those aged 55 and over.**

**The government is also paying $9 billion in additional childcare subsidies and $11 billion to subsidise the wages of aged care workers.**

**The budget said the $3 billion in power bill discounts, which will be split 50:50 between the states and the Commonwealth, would, in conjunction with the temporary price caps on gas and black coal, lower inflation by 0.75 of a per cent in 2023-24.**

**Overall, the budget forecast inflation to fall from 6 per cent this financial year to 2.75 per cent in 2024-25, which is back inside the Reserve Bank of Australia's target band.**

**Economic growth will slow from 3.25 per cent this year to 1.5 per cent next year due to high interest rates and a slowing global economy.**

**After the October budget forecast a deficit of $36.9 billion for this financial year, 2022-23, Tuesday's budget predicted that to now be a surplus of $4.2 billion, which would be the first time the budget was in the black for 15 years.**

**But, as structural spending pressures grow and the economy slows, there is a forecast deficit of $13.9 billion for next year, growing to $36.6 billion in 2025-26, and the budget forecasts deficits until at least 2033-34.**

**The budget also included a significant clean energy package with $1 billion in low-cost loans to help households install low-energy appliances and other technology. Another $300 million was dedicated to improving the energy efficiency of low-cost and social housing.**

**The biggest single measure was a $2 billion "Hydrogen Headstart" program, which will involve production subsidies to enable the commercially viable production of hydrogen.**

**The decision to double the tax on earnings from the component of superannuation accounts over $3 million will raise $2.3 billion in 2027-28 alone, its first full year of operation.**

**Other tax increases in the budget were a $3.3 billion jump in tobacco excise, the $2.4 billion increase to the Petroleum Resources Rent Tax and another $370 million from multinationals.**

**But Dr Chalmers said "fixing the mess" would take more than two budgets and more than one term of government, in a hint Labor would seek a tax rise agenda for the next election, or give the stage three income tax cuts a haircut.**

**Shadow Treasurer Angus Taylor described it as a"Budget of Broken Promises", on the basis that:**

- **There will be no growth in real wages this year.**
- **The cost of living will continue to rise.**
- **Gas and electricity bills will continue to skyrocket.**
- **Unemployment will rise.**
- **Inflation will remain stubbornly high.**
- **Australians will continue to face higher taxes.**

**In a doorstop interview prior to the Budget, Jim Chalmers said: "Our Budget is carefully designed and carefully calibrated to address cost-of-living pressures in our economy rather than add to them. And if you think, for example, about our energy bill relief, that will take the pressure off prices. And there may well be other initiatives in the Budget tonight which have a similar impact.**

**"We're very conscious, obviously, of the inflation challenge in our economy, it remains the dominant concern that we have about the economy, particularly over the next little while. And so what we've done as we've put together a cost-of-living package, which recognises that people are doing it tough but which doesn't make the inflation problem in our economy worse."**

**These claim are disputed by Steven Hamilton, assistant professor of economics at George Washington University and visiting fellow at the Tax and Transfer Policy Institute at the ANU.**

**"The Treasurer does not claim none of this risks stoking inflation. No, rather, he claims it will substantially *reduce* inflationary pressures in the economy!"**

**Economics professor Richard Holden wrote over the weekend: "There is NO question that energy subsidies or cuts in fuel excise are inflationary. It's not a matter of opinion. It's just an economic fact."**

**Former head of Deloitte Access Economics, Chris Richardson, also wrote: "[Governments] find it hard to fight a cost of living crisis [because] they fight it by giving (or saving) people money. But that money then gets spent, meaning that it adds to inflation. So [government] attempts to help cost of living DON'T actually help cost of living."**
**"To see through the Treasurer's subterfuge, you simply need to ask yourself: will the measures put money into people's pockets or remove it from them? Whether the government hands someone a dollar or cuts their electricity bill by a dollar makes no difference to the *expansionary* nature of fiscal policy, CPI be damned," Hamilton said.**

**"By putting more money into people's pockets, these measures boost aggregate demand, which would lead the RBA to raise rates to fully offset them. At best, the net effect is a change in the distribution of resources but with lower output and higher unemployment than there otherwise would have been.**

**"This is not to say the government must not spend a single dollar to shield the most vulnerable. It is the government's prerogative to address distributional concerns in the way it sees fit. But in doing so, it ought to be up-front about the costs. The Treasurer cannot have his cake and eat it.**

**In this environment, extreme caution should be urged when attempting to blunt the inflationary impact in this way. The RBA and Treasury seem to believe that from here on out we will experience an immaculate disinflation. Maybe."**

**Global Outlook Risks**

The NAB noted there remain a range of factors that present risk to our global outlook. Overall, the stickiness of inflation means that its path forward remains uncertain. This increases the risk that central banks could continue to tighten policy rates above our expectations, which could drive economic activity lower and further destabilise the financial sector.

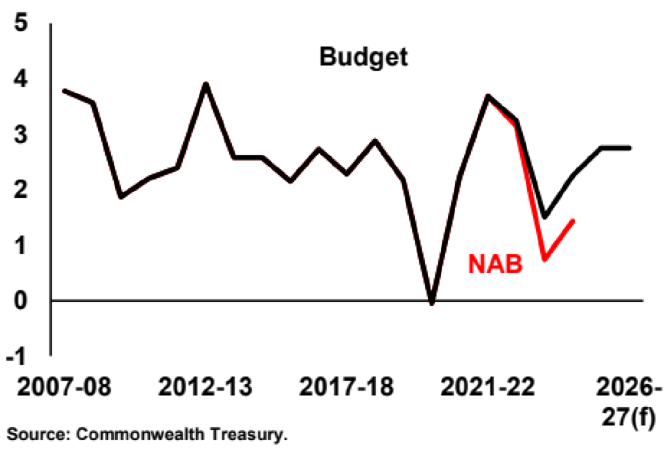
There are also a range of geopolitical factors that could negatively impact the global economy. The Russia-Ukraine conflict persists – with potential flow on impacts on European energy markets and global agricultural trade.

Similarly, tensions between China and United States have persisted – reflecting a range of issues including China's spy balloons over the US mainland and the Biden Administration's efforts to restrict China's access to high- tech semi-conductors.

"We expect global economic to slow to 2.7% in 2023 and remain around this rate in 2024, before picking up to around 3.2% in 2025. Overall Treasury's global forecast is broadly similar for 2023 but marginally stronger for both 2024 and 2025, largely reflecting more robust growth expectations for India, the Euro-zone and the United States.

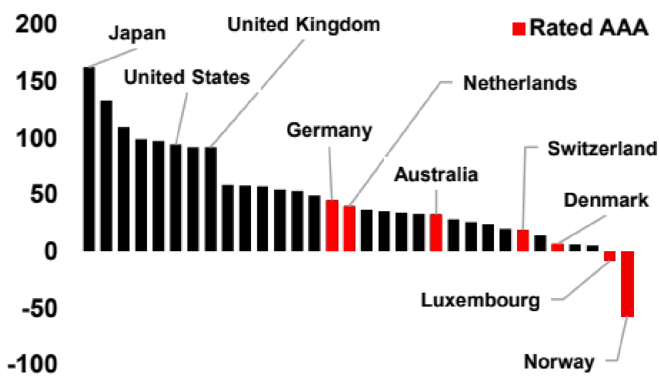
In contrast, Treasury forecast a flat growth profile for China across 2024 and 2025, whereas NAB forecasts a modest pickup in 2025.

Chart 12: Real GDP Growth Forecast Comparison (%)




Source: Commonwealth Treasury.

Chart 6: Govt Net Debt, Advanced Economies, 2022 (% GDP)




Source: IMF World Economic Outlook.

AGRICULTURE

The NAB says Australia's agricultural sector has broadly enjoyed three exceptional years since 2020, reflecting three consecutive La Nina events delivering well above average rainfall, combined with an almost unprecedented commodity price boom.

But since mid-2022, prices have trended generally lower, with our Index now down approaching 20% on a year-on-year basis. Livestock prices have been hit particularly hard. While the autumn break has been much better than expected, the Bureau of Meteorology's ENSO outlook points to El Nino developing this winter - a clear risk for spring-summer rainfall.

The NAB noted that the centrepiece of this year's budget for the agricultural sector is $1b over the forward estimates (and $268m annually ongoing) and for a strengthened biosecurity system. There is an additional $127m for DAFF departmental funding in 2022-23 to cover the gap for increased operational activities.

Most of this funding ($845m over the forward estimates), will be directed on policy, operational and technical funding to enable the department to cover increased biosecurity activity.

The Budget also provides for $38.4m for agricultural sustainability, $5m for animal welfare, $5.6m for an independent assessment of the phase-out of live sheep export and $20m for a National Soil Action Plan.

The instant asset write-off continues on a temporary basis for 2023-24, although in pared-back form. Multiple assets can be claimed, but the maximum amount per asset is $20,000.

The Budget also funds a new National Net Zero Authority, which was welcomed by the NFF, although with some concerns around electricity transmission easements.

Infrastructure

While the government has a large infrastructure pipeline (around $120b over a decade), the future of these projects will now be subject to an independent strategic review. While the government has committed to prioritising projects currently under construction and election commitments, it is unclear whether other projects will be amended, delayed or cancelled.

The government will also increase the Heavy Vehicle Road User Charge rate from 27.2c/l in 2023–24 to 32.4c/l in 2025–26. This is expected to raise around $1.1b, which will reduce expenditure on the fuel tax credit. With much agricultural produce moved by road, this change will have implications for transport costs.

The government continues to allocate funds from the Natural Heritage Trust funding special account. In this budget, existing resourcing is allocated to protect nature, threatened species, the BushBlitz, and Natural resource management ($341.2m over 5 years), $302.1m for 'climate smart' Agri, the protection of wetlands and catchments($50m) and world heritage properties ($48m).

Note again that this is not new money, but money from an existing account that has now been allocated to projects.

National Farmers' Federation President, Fiona Simson, said the budget did nothing to get to the heart of rampant food price inflation, noting that the budget "ignores practical solutions that could have provided a double-whammy of price relief for households and a stronger more vibrant agriculture sector."

The NFF also pointed to road funding, tax incentives and measures to address worker shortages as areas where the budget fell short. "Right along the supply chain, the businesses which grow, process and transport our food and fibre are under immense pressure.

"Whether it's workforce shortages, damaged roads, or the cost of capital upgrades – there are issues that need urgent attention if we want to achieve price relief for consumers. Sadly, tonight's budget fails to act on these in any meaningful way."

**The NFF welcomed the increased biosecurity funding but noted that it includes a tax whack for farmers. "The move to have farmers foot the bill is a bitter pill to swallow. We're already significant financial contributors. What's more, we bear the cost of managing historical pest and disease incursions and face the enormous threats posed by pests and diseases on our doorstep."**

**The NFF also welcomed clarity on the Natural Heritage Trust's $302.1 million over five years to support farmers' transition to a low emissions future and strengthen agricultural sustainability, along with the support for small businesses to invest in electrification and energy efficiency through the Small Business Energy Initiative.**

**However, the NFF noted that calls for urgent funding to repair and improve Australia's regional and rural road network were unanswered by the budget.**

**Small business**

**A $20,000 instant asset write-off for small businesses with annual turnover below $10 million will be in place from 1 July 2023 to 2024.**

**A new Small Business Energy Incentive will also be introduced, providing businesses with turnover less than $50 million with a bonus 20% tax deduction for eligible depreciating assets up to $100,000 for energy saving upgrades.**

**The Budget also provide $23.4 million to support small businesses to build resilience to cyber threats.**

**COMMENTS FROM MACQUARIE BANK**

**The Federal Government has delivered a prudent Budget that seeks to address cost of living pressures without adding to inflationary pressures (but unfortunately neither to long term growth potential). The Budget has posted its first surplus since 2007-08, due primarily to surging tax receipts although this is set to deteriorate in coming years despite a rising tax take.**

**Major spending initiatives have been targeted at lower income households, but in such a way as to attempt to minimise the inflationary impact. We don't believe this Budget is inflationary given fiscal policy is contractionary (via a surplus) rather than expansionary and given the targeted nature of the spending. However, the Budget provides relief for inflation rather than a solution.**

**It is not a 'pro-growth' Budget given a dearth of policies addressing productivity or other long-term major structural reforms. <u>We expect the budget to have limited impact on the longer-term economic growth outlook with deficits expected to rise, unemployment to tick higher (peaking at 4.5%) and for inflation to remain well above the RBA's 2-3% target range out through 2025.</u>**

**While the Budget addresses short-term pain, particularly for households and small businesses, it doesn't go far enough to address longer term costs associated with the ballooning NDIS and interest payments. This will weigh on the structural position of future Budgets and in turn reduce future fiscal flexibility without a strong rise in tax receipts.**

**Who wins? Lower income households will benefit from energy cost relief and increased welfare payments. Small businesses will benefit from energy relief and clean energy subsidies. Aged care workers will benefit from wage increases. The 'build-to-rent' sector will also benefit and this may make an impact in the long term on housing supply.**

**Who loses? Offshore gas and oil projects have seen their PRR tax liabilities bought forward. Superannuation savers with balances above $3m will pay an additional 15% tax on the income generated from their fund.**

**Given the Budget is directed towards income relief rather than boosting economic growth, its unlikely to be greeted with much fanfare from financial markets. On the positive side, a mild rise in the future path of**

**deficits will reduce pressure on Australia's credit rating and in turn downside pressures for the Australian dollar.**

**However, the relief for business via energy and/or utility costs is unlikely to be sufficient to offset margin pressures from rising raw material costs and wage pressures. In addition, sticky inflation will prevent a quick reversal (normalisation) in policy rates implying higher financial costs will remain a headwind for earnings.**

**We doubt the budget is enough to provide a sustained boost to consumer spending as welfare payments only provide a temporary offset to cost of living pressures. Policies to deal with the impact of rampant inflation do nothing to bring inflation down (they simply deal with the symptoms).**

**Against a backdrop where economic growth weakens, where unemployment rises, where inflation remains elevated and where income support is temporary, we see no reason why our near-term cautious view on the equity market should change.**

**The impact on the overall economy will be muted. Some less advantaged households will feel better off although any cost-of-living adjustments will likely be quickly absorbed. While this should improve sentiment for lower-income households in the near-term, we don't believe it will drive meaningful upside in spending in aggregate.**

**Implications for markets**

**Given the Budget is directed towards income relief rather than boosting economic growth, its unlikely to be greeted with much fanfare from financial markets. On the positive side, a mild rise in the future path of deficits will reduce pressure on Australia's credit rating and in turn downside pressures for the Australian dollar. We don't believe it will have any significant impact on the near-term interest rate outlook.**

**Macquarie is still calling for a short and shallow recession (a soft economic landing) as the lagged effects of policy tightening finally slow the pace of consumer spending and begin to soften extremely strong labour markets.**

**Our expectation has been that weaker economic growth combined with (still) elevated inflation and peak policy rates would keep equities largely range-bound until more realistic earnings expectations emerged and/or the start of a new rate cut cycle began.**

## THE COTTON RESEARCH AND DEVELOPMENT CORPORATION

**The Cotton Research and Development Corporation (CRDC ) delivers outcomes in cotton research, development and extension (RD&E) on behalf of Australia's cotton growers and the Australian Government.**

**Established in October 1990 and operating under the Primary Industries Research and Development Act 1989 (PIRD Act), CRDC exists to grow the sustainable future of cotton through innovation with impact. CRDC delivers world-class RD&E outcomes through thought leadership, innovation, adoption, collaboration, and partnerships.**

**Cotton growers are at the heart of CRDC's activity: they determine CRDC's RD&E priorities and co-fund the resulting research through a grower levy, matched by Commonwealth contributions.**

**CRDC is based in Narrabri, the heart of one of Australia's major cotton growing regions and home to the Australian Cotton Research Institute.**

**Cotton is a major contributor to the nation's economic, environmental, and social fabric. According to the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), the value of exported cotton is expected to be close to $7 billion from 2022–23, making cotton the third-ranking agricultural export commodity.**

**Australia's cotton is among the best and most sustainable in the world, thanks in part to the RD&E that underpins it. Compared to 1992, Australian cotton growers use 97 per cent less pesticides, 52 per cent less water, and 34 per cent less land to grow a bale of cotton.**

**Cotton employs more than 12,000 people across 150 rural and regional communities, many of which rely heavily on cotton for their economic prosperity and viability. Each year, Australia grows enough of this high-quality natural fibre to clothe 500 million people.**

**Innovative and adaptive growers, supported by RD&E and world-leading researchers, have driven Australian cotton's success. CRDC's role is to continue driving this success through RD&E.**

**CRDC's new Strategic RD&E Plan 2023–28: Clever Cotton commences in the 2023–24 year. Clever Cotton sets out CRDC's vision for a sophisticated, prosperous and sustainable Australian cotton industry that is strongly connected to its value chain.**

**The strategic RD&E investments that CRDC will make in 2023–24 under Clever Cotton will help the industry increase its productivity and profitability; sustainably address the impacts of climate change and improve decision making using data and digital technologies.**

**CRDC's goal is to add an additional $1 billion in economic value to the Australian cotton industry over the next five to ten years.**

**Clever Cotton contains three pillars of investment – Paddock, People, Planet – aligned with the Australian Cotton Industry's Sustainability Framework. Each of these pillars contains three themes, creating nine key investment areas:**

**1. Paddock: Our future fields**
- **Data-driven decisions**
- **Adaptive systems**
- **Connected market.**

**2. People: Central to our success**
- **Design and innovation**
- **Leadership and capacity**
- **Adoption and impact.**

**3. Planet: Our shared future**
- **Natural capital**
- **Carbon**
- **Circular economy.**

<u>**To help achieve this, Australian cotton growers and the Australian Government will co-invest $150 million into cotton RD&E during 2023–2028, across these key focus areas.**</u>

**Table 1.1: Cotton Research and Development Corporation – Resource Statement – Budget Estimates for 2023–24 as at Budget May 2023**

| | *2022–23 Estimated actual $'000* | 2023–24 Estimate $'000 |
|---|---|---|
| **Opening balance/cash reserves at 1 July** | ***23,404*** | **27,545** |
| **Funds from Government** | | |
| **Special appropriations**[a] | | |
| *Primary Industries Research and Development Act 1989*, s.30(3) – Cotton R&D Corporation | *21,871* | 27,132 |
| ***Total special appropriations*** | ***21,871*** | **27,132** |
| **Amounts received from related entities** | | |
| Amounts from portfolio department[b] | 713 | - |
| ***Total amounts received from related entities*** | ***713*** | **-** |
| **Total funds from Government** | ***22,584*** | **27,132** |
| **Funds from industry sources** | | |
| Levies[c] | *13,265* | 12,055 |
| *less amounts paid to the CRF* | *(13,265)* | (12,055) |
| ***Total funds from industry sources*** | **-** | **-** |
| **Funds from other sources** | | |
| Interest | *751* | 750 |
| Royalties | *285* | 50 |
| Grants | *10,485* | 33,463 |
| Other | *1,008* | 419 |
| ***Total funds from other sources*** | ***12,529*** | **34,682** |
| **Total net resourcing for CRDC** | ***58,517*** | **89,359** |
| | ***2022–23*** | **2023–24** |

**WATER**

**The Government will achieve savings of $872.5 million over 11 years from 2022–23 through responsible investment decisions on National Water Grid Fund projects, including not proceeding with:**

- **$595.0 million over 7 years from 2026–27 for the Dungowan Dam project, as the business case did not provide sufficient support for construction of the project**
- **$162.5 million over 7 years from 2026–27 for the Emu Swamp Dam and Pipeline project, which is being reconsidered against alternative options as part of the regional water assessment**
- **$39.7 million over 4 years from 2022–23 for the Southern Forests Irrigation Scheme project, as additional planning activities did not provide sufficient support for construction of the project**
- **$35.0 million over 3 years from 2022–23 for the Fingal Irrigation Scheme, as low customer demand does not support construction of the project**
- **$40.3 million over 3 years from 2022–23 for projects that are being re-scoped, not progressing or do not require additional Commonwealth funding.**

**The measure also defers funding of $19.1 million from 2026–27 for the Wyangala Dam Wall Raising and the Hughenden Irrigation Scheme projects, with a final decision on these projects to be taken once planning work is complete. The savings from this measure will be redirected to fund other Government priorities.**

**The Government will provide $236.0 million over 10 years from 2023–24 (and $13.9 million per year ongoing from 2032–33) to remediate high priority flood warning infrastructure and address critical reliability risks. The Bureau of Meteorology will acquire, upgrade and integrate local and state government-owned rain and river gauges into its existing flood warning network.**

**The Government will provide $148.6 million over 4 years from 2023–24 towards the sustainability of the Murray-Darling Basin (Basin). Funding includes:**

- **$103.7 million for the Murray-Darling Basin Authority to prepare for and undertake the first statutory review of the Murray-Darling Basin Plan 2012, with updated science to enable the Basin to adapt to the impacts of climate change**
- **$44.9 million for the Department of Climate Change, Energy, the Environment and Water to provide advice and work with Basin states and affected communities on the Basin Plan.**


https://www.afr.com/politics/federal/labor-doles-out-15b-in-welfare-difficult-decisions-to-come-20230509-p5d706
https://www.afr.com/politics/federal/chalmers-can-t-have-his-inflation-cake-and-eat-it-too-20230507-p5d6dp
https://business.nab.com.au/2023-federal-budget-nab-economic-commentary-59795/
https://campaigns.macquarie.com.au/investment-matters?ENID=MDAzMjgwMDAwMDNFUzhTQUFX#federalbudget
https://budget.gov.au/index.htm