

Tuesday, 17 June 2014

NSW State Budget 2014-15

- **The NSW State Budget 2014-15 was handed down today. A stronger economy, an upswing in housing and fiscal consolidation in earlier years has allowed room for the NSW Government to lift funding in a range of areas.**
- **As indicated in previously announced policies, the NSW Government is planning to spend up big on infrastructure. An estimated \$61.5bn is expected to be spent on infrastructure over the coming four years.**
- **The infrastructure initiatives will help boost business spending and economic activity through the important multiplier effects infrastructure spending has in an economy. These effects include promoting confidence, creating jobs, improving productivity and spurring housing investment.**
- **For housing, the Government is announcing a lift in the threshold for the First Home Owner's Grant for new homes to \$750,000. While we expect this will have only a marginal impact of impact on first home buyer demand, funding to support new housing development should assist in lifting the housing stock and is a step in the right direction to improving housing affordability.**
- **The Government forecasts Gross State Product (GSP) to pick up above trend at 3% in 2013-14 and to grow at 3% over the forecast period. Growth is expected to be driven by household consumption, dwelling investment and non-mining investment.**
- **The NSW Government's bottom line has improved since the Budget announced last year. A surplus of \$988mn is now estimated for 2013-14. A deficit of \$283mn is expected for 2014-15, but a return to surplus is expected in 2015-16.**
- **The better position is largely due to higher state and non-tax revenue reflecting an improved NSW economy. The re-profiling of Commonwealth payments have however, have lowered receipts, and helped bring the estimated budget into deficit in 2014-15.**
- **Net debt is projected to fall to \$8.6bn or 1.7% of GSP in 2013-14, and stay contained in the following years. This would be the lowest net debt position as a proportion of GSP since 2008, and the lowest across States. The fall in net debt and the healthy budget position over the estimates should ensure that NSW maintains its triple-A credit rating.**

The NSW Government handed down its 2014-15 Budget today. A stronger economy, an upswing in housing and fiscal consolidation in earlier years has allowed room for the NSW Government to lift funding in a range of areas. As indicated in previously announced policies, the NSW Government is planning to spend up big on infrastructure. Additional funding has also been announced for education, healthcare and for child protection.

Infrastructure

An estimated \$61.5bn is expected to be spent on infrastructure over the coming four years. Major projects are listed below.

Project Name	Start Date	Delivery Date	Estimated Total Cost
North West Rail Link	Under construction	2019	\$8.3 billion
WestConnex	2015	2023	\$14.9 billion
NorthConnex	2014	2019	\$3 billion
CBD and South East Light Rail	2015	2019	\$1.6 billion
Western Sydney roads package to support Sydney's second airport	2014	2024	\$3.5 billion
Pacific Highway Upgrade (complete dual carriageway Hexham to Woolgoolga/Ballina to QLD)	Under construction	2020	The Commonwealth Government will contribute \$5.6 billion from 2013-14. The NSW Government will contribute \$395 million in 2014-15.
Northern Beaches Health Service Redevelopment	2015	2018	N/A
Darling Harbour Live	Under construction	2017	\$1.1 billion
Next Generation Rail Fleet	2014	2024	\$2.8 billion
South West Rail Link	Under construction	2015	\$2 billion
Barangaroo Precinct	Under construction	2015	\$249 million

The government has also announced \$400mn for stage 1 of Parramatta Light Rail, and funding for feasibility studies for a Northern Beaches motorway tunnel, an extension of the F6 and route corridor for the M9 – North, South and West.

Housing

The NSW Government confirmed it will increase the First Home Owners' Grant threshold by \$100,000 to new homes worth up to \$750,000 from July 1. Additionally, the New Home Owner's Grant will only benefit Australian citizens and permanent residents.

We expect the lift in the threshold to have a marginal impact on first home buyer demand. However, the \$60mn to local government for essential infrastructure to support new housing development should assist in lifting the housing stock and is a step in the right direction in improving housing affordability.

Business

For all businesses, the improvement in jobs, productivity and growth delivered from strong infrastructure spending will provide a more favourable and stable business environment over the medium term.

A reduction in the WorkCover premium of 5% would further give support to businesses. Stamp duty on business mortgages, unlisted marketable securities and transfer duty on non-real business transfers will be abolished from 1 July 2016.

The Job Action Plan Scheme will now provide \$6k payroll tax rebate (previously \$5k) to businesses that employ workers who have been made unemployed through large scale redundancies.

Health

The Government has announced significant spending of \$1.3bn for Health. This spending predominantly includes the rebuilding of Westmead Hospital, but also includes redevelopment of St George, Sutherland and Gosford and a new Byron Central Hospital.

The Budget also includes:

- \$300mn to meet increased demand for hospital and emergency department services
- \$220mn to retain patient services previously funded by the Commonwealth
- \$92mn for medical research
- \$70 mn for patient centred initiatives
- \$29mn for new mental health initiatives

While health spending is likely to keep pace with demand, it will do little to significantly alleviate some systemic pressures on health.

Other Initiatives

The Budget also includes:

- \$500mn in new funding to assist case workers in protecting children from abuse and
- \$587mn for Ready Together, which assists people to move to the National Disability Insurance Scheme and \$30mn towards new accommodation for people with disability in the Hunter Residential Centres.

The NSW Government has announced that \$2.0bn has been wiped off the books through the National Partnerships and agreements in health, education and pensioner and senior concessions following the Federal Budget. The cuts to spending are expected to increase in subsequent years.

A key issue raised in this Budget was the privatisation of NSW's electricity distribution network. The NSW Government has reiterated its intention of continuing with this process. It involves the transfer of 49% of its ownership in a range of electricity transmission and distribution companies to the private sector in the form of a 99-year lease. The proceeds are intended to fund infrastructure through "Rebuilding NSW".

Economic Forecasts

	2012-13 Outcomes	2013-14 Forecasts	2014-15 Forecasts	2015-16 Forecasts
New South Wales				
Real state final demand	1.7	3¼	3¼	3¼
Real gross state product	1.8	3	3	3
Employment	1.7	½	1¾	2
Unemployment rate ^(a)	5.2	5¾	5½	5¼
Sydney CPI ^(c)	2.6	2½	2¼	2¾
- through the year to June quarter ^(c)	2.6	3	2¼	2¾
Wage price index	3.1	2½	3	3½
Nominal gross state product	2.9	3¾	4¾	5¼

(a) Per cent change, year average, unless otherwise indicated.

(b) Year average, per cent.

(c) 2014-15 includes a ¾ percentage point deduction due to the carbon tax abolition; 2014-15 and 2015-16 include a ¼ percentage point contribution from tobacco excise increases.

Source: ABS 5206.0, 5220.0, 6202.0, 6401.0, 6345.0 and Treasury.

A brighter outlook for the NSW State economy is being underpinned by low interest rates and the upswing in the State's housing sector. For 2013-14, the Government is forecasting GSP growth of 3.0%, an above trend pace, driven by household consumption, dwelling investment and non-mining investment. We think

these forecasts seem reasonable in the near-term given the recent momentum within the State economy and positive growth prospects. The high levels of infrastructure spending will also support economic activity. However, there is some risk that growth will not be consistently above trend in later years.

Budget Position

The NSW Government's bottom line has improved since the Budget announced last year. A surplus of \$988mn is now estimated for 2013-14. A deficit of \$283mn is expected for 2014-15. However, a return to surplus is expected in 2015-16 improving to \$1.7bn in 2017-18.

The better position is largely due to higher state and non-tax revenue reflecting an improved NSW economy. The re-profiling of Commonwealth payments have however, have lowered receipts, and helped bring the estimated budget into deficit in 2014-15.

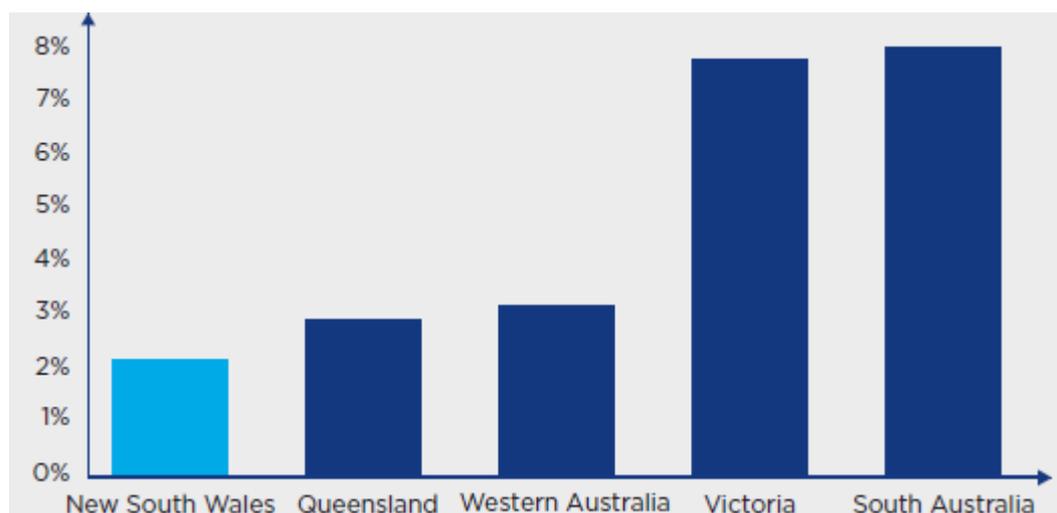
Expenses are projected to grow by 4.6% in 2014-15, moderating to growth of 2.8% in 2015-16.

Revenue is expected to grow by 2.6% in 2014-15, after an 8.8% jump in 2013-14. Total revenue growth from 2015-16 is projected to average 3.8% over the forward estimates. The surge in revenue largely reflects the strengthening NSW housing market and the resulting lift in transfer duties. A strengthening economy also translates to stronger tax intake via an improving labour market and higher GST revenue. However, Commonwealth funding changes have weighed on revenue growth.

Net Debt and Net Financial Liabilities

Net debt is projected to fall from \$11.9bn as at 30 June 2013 to \$8.6bn as at 30 June 2014, and stay contained in the following years. This equates to net debt of 1.7% of GSP in 2013-14, the lowest net debt position as a proportion of GSP since 2008, and the lowest across States.

Net Debt as a Proportion of Gross State Product



The fall in net debt reflects the re-profiling of Commonwealth Grants into 2013-14 (largely from 2014-15), the proceeds from the Port of Newcastle transaction and stronger state tax and non-tax revenue.

The fall in net debt and the healthy budget position over the estimates should ensure that NSW maintains its triple-A credit rating.

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