

## Election'25 – and the winner is...

- Election day is 3 May.
- Neither major party themes are cutting through to voters.
- The election has devolved into the usual unedifying spendathon as a result.
- Voters want help with the cost-of-living and housing.
- The risk is that that help lifts inflation risks and delays RBA rate cuts.

### The Big Picture

The Election was called on 28 March. But in reality the campaign has been underway since the start of the year. So the major parties have had plenty of time to road test their main themes:

- Anthony Albanese wants us to believe that the economy is “turning the corner”.
- Peter Dutton wants us to ask a simple question: are we better off than three years ago?

Both themes have some truth behind them. And both themes have gained traction at times.

The March Budget, for example, did emphasise that a corner was being turned.

Budget forecasts have economic growth returning to around “normal” rates of 2¼-2½ %pa. That growth means that:

- the per-capita recession is over;
- employment will keep growing;
- unemployment will remain in the low 4's – or not that far off the 50-year lows recorded in 2022-23.

The question mark over this Goldilocks scenario comes down to what drives the turnaround. Consumers and dwelling investment are the keys. These are, in fact, the typical drivers of economic recovery. But the size of the turnaround looks extreme:

Chart 1

#### AUSTRALIA POLICY UNCERTAINTY

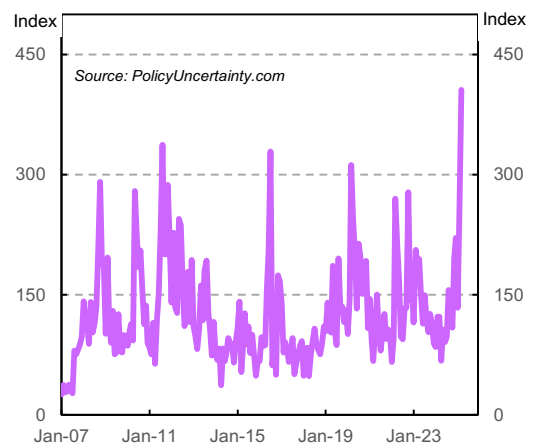
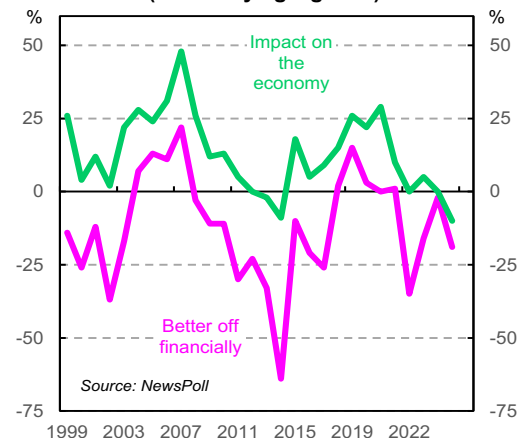


Chart 2

#### FEDERAL BUDGET IMPACT (net % saying "good")



- consumer spending growth must *triple* over the next couple of years; and
- a 13% rise in dwelling investment looks ambitious at a time when construction infrastructure has contracted.

Overlaying all this is the spike in global uncertainty associated with the Trump trade war. Measures of uncertainty in Australia now sit at record highs (Chart 1).

Post Budget reaction showed most expect the Budget to have a negative impact on the economy - the worst outcome since at least 1999 (Chart 2). Most also thought they would be worse off financially.

Bottom line: the turnaround story is attracting some scepticism as economists cut their growth forecasts and commentators emphasise the downside risks.

But are we worse off than three years ago? Table 1 compares a range of economic indicators between Election 2022 and Election 2025. Both sides can cherry-pick their indicators of choice:

- The LNP emphasise slower growth, higher unemployment, higher personal taxes, higher interest rates and the collapse in activity.
- The ALP can point to slower inflation, allowing interest rates to fall and real wages to rise.

The knock-out factor here is the decline in living standards. Economists will tell you the best measure of living standards is *Real Net National Disposable Income per capita*. But try fitting that into a newspaper headline! RNDI per capita fell by nearly 5% over the past three years – the largest sustained decline by electoral term (Chart 3).

Bottom line: the worse-off story is accepted by most. But we knew that already. And what are you going to do about it?

Neither major party themes are cutting through to voters. The election has devolved into the usual unedifying spendathon with the press pack keen to find the “gaffes”.

Peter Dutton is ahead on the gaffe-o-meter. Measuring the curtains at Kirribilli, dumping the policy against working-from-home, being seen as too-Trump-like, MAGA, Russian jets and the list goes on. All the PM has managed is to deny that he fell off a stage (in front of the cameras) and exchange an awkward air kiss with Tanya Plibersek.

## The Spendathon

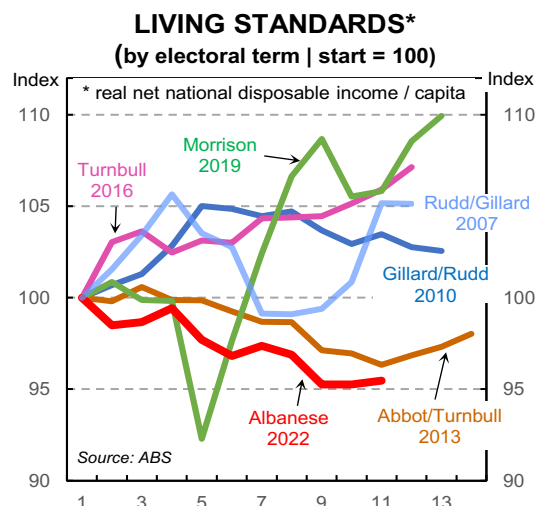
The campaign itself has focused on the areas of greatest voter concern. Or from where can the most votes be harvested?

Table 1: Election Backdrop

	Election 2022	Election 2025
GDP growth (%pa)	3.8	1.3
Unemployment (%)	3.6	4.1
CPI (%pa)	6.1	2.4
Underlying CPI (%pa)	4.9	3.2
Wages (%pa)	2.7	3.2
Real Wages (%pa)	-3.4	0.8
Real disposable income (%pa)	2.7	1.8
Personal income tax per capita (\$)	\$11,165	\$12,908
RBA cash rate (%)	0.35	4.10
New mortgage rate (%)	2.6	6.0
Expected direction of interest rates	↑	↓
Underlying Budget Deficit (% of GDP)	-3.4	-1.5
Expected direction of budget deficit	↓	↑
Population (%pa)	1.3	1.8
Productivity - GDP per hour worked - (%pa)	0.2	-1.2
Living standards -national disposable income per capita - (%pa)	1.2	-2.0

Source: ABS / Treasury / RBA

Chart 3



Voter surveys return a consistent message. The major issues relate to the cost-of-living crisis, the housing crisis and health (Chart 4). Some of the traditional concerns related to the economy, the labour market, interest rates and even the environment have slipped down the list.

Some of the policy proposals are of the me-too variety. Or whatever you are doing, I will match. Others have the same objectives. But propose a different path to get there.

The 2025 Election marks a significant generational shift. Gen Z + Millennials will be the dominate demographic group for the first time (Chart 5). Their policy preferences differ in some areas from the national average.

Key issues for younger voters include housing affordability, climate change, education and jobs & wages.

### The cost-of-living

Cost-of-living measures comes down to some simple choices:

- Do you want a temporary halving of the fuel excise almost immediately (LNP)? Or a couple of smallish permanent tax cuts from July 2026 and July 2027 (ALP)?
- Do you prefer a short-term extension to the \$75 energy bill subsidy until the end of the year (ALP)? Or are you prepared to wait for lower energy prices from a domestic gas reservation policy (LNP)?
- Do you want an ongoing \$1,000pa deduction for work-related expenses (ALP)? Or perhaps a one-off tax offset of up to \$1,200 aimed at low & middle income households earning less than \$144,000 (LNP)?
- Both sides are promising to be nasty to supermarkets with the aim of restraining grocery inflation. The approaches vary from (somehow) making price gouging illegal (ALP) to legislating (never-to-be used) breakup powers on Coles and Woolworths (LNP).
- Good news for beer drinkers – both sides are freezing the excise indexation for two years. The experts calculate this measure will knock about 1c off the cost of a pint!

Economists and policy makers have taken some lessons away from previous crises such as the GFC and the Covid pandemic. These are:

- The crisis is now - so measures that take effect *immediately* are preferred.

Chart 4

#### ISSUES FOR GOVERNMENT FOCUS (% of respondents)

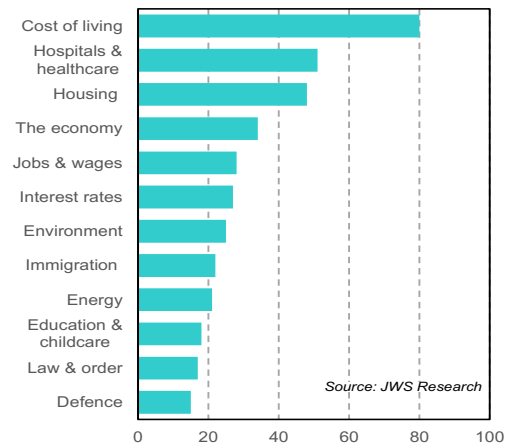


Chart 5

#### VOTER DEMOGRAPHICS (% of total voters)

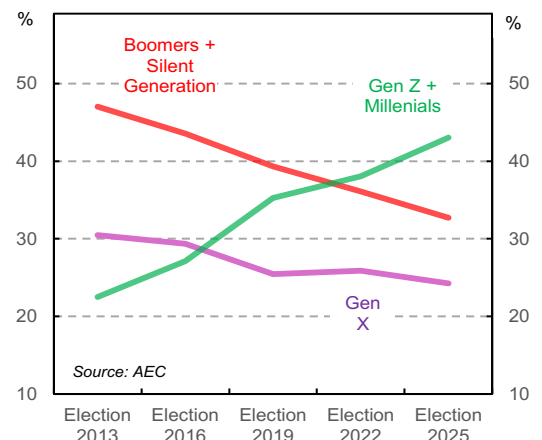
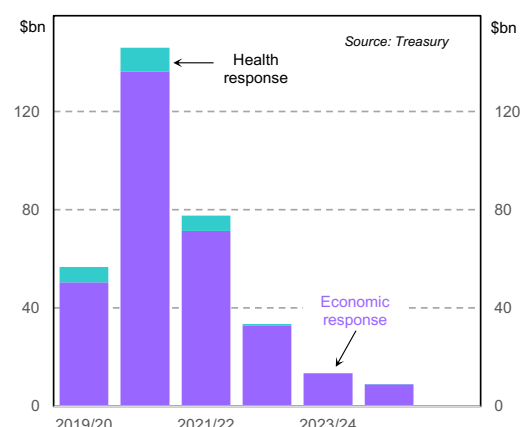


Chart 6

#### COVID RESPONSE & RECOVERY SUPPORT (as at end 2021)



- Policy measures should come with a *sunset clause* – so they wind down once the crisis has passed.
- *Don't panic.* Throwing everything up to and including the kitchen sink at a crisis can leave a nasty inflation aftertaste.

The pandemic policy response is a good example. The policy mantra at the time was: Go early. Go hard. Go households. The fiscal response was immediate and targeted at households. The key measures did come with a time limit and wound down post pandemic (Chart 6). But, with all the clarity of 20-20 hindsight, too much stimulus was applied. And inflation rates did lift.

The LNP election proposals probably come out slightly ahead on this crisis policy framework. The fuel excise cut takes effect immediately post-election. The excise cut and tax offset are one-offs. And the cost of the package is relatively restrained at around \$16bn.

That said, taxes should be in focus. The rising tax take of recent years has eaten into household disposable income (Chart 7). Tax reform is something that governments of all persuasions will have to deal with post-election.

With the cost-of-living being the major focus for voters (Chart 4), the tendency is to dress up all election promises as part of the solution. Health and Housing proposals are a case in point.

## Health

Health policy is an area where the me-too approach is in full swing. Both parties will expand Medicare bulk billing, cut PBS prescription costs to \$25 and spend more on mental health.

## Housing

Housing policy proposals offer a bewildering array of options to deal with the very low levels of housing affordability (Chart 8). The common theme across the major parties is that the focus is on first-home buyers. Both sides should get some credit for having a supply side to their proposals. But demand measures dominate. The end result will be a lift in house price inflation.

Table 2 summarises the main policy proposals and whether they favour demand over supply.

Some policy proposals aim to ease borrowing constraints:

- The ALP will take an equity share in a first-home buyers' residence and will guarantee 5% deposits (removing the need for expensive lenders mortgage insurance).

Chart 7

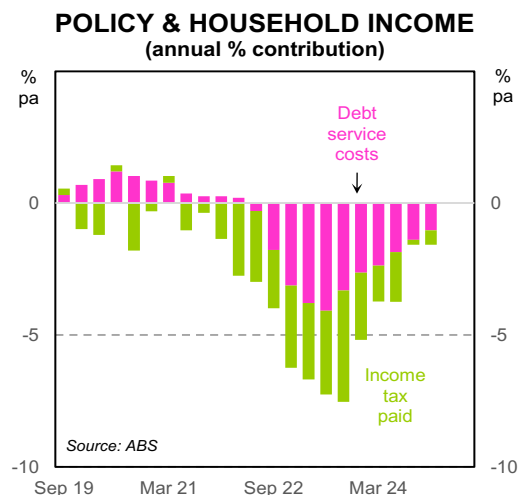


Chart 8

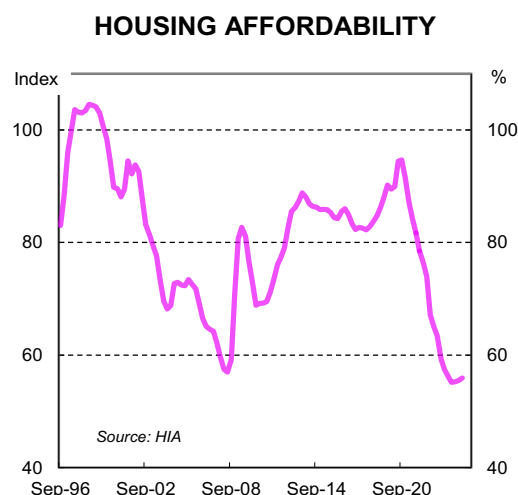


Table 2: Housing Proposals

	Adds to demand	Adds to supply
<b>ALP</b>		
Expand Help-to-Buy scheme (government takes some equity)	✓	
Allow 5% deposits with government guarantee (avoiding need for mortgage Insurance)	✓	
Build 100,000 homes reserved for first-home buyers		✓
Housing Australia Future Fund (to build social and affordable housing)		✓

- The LNP will allow first-home buyers to tap their Super for a deposit and ease bank loan serviceability requirements.

The Coalition will ease servicing costs by making first-home buyer interest payments tax deductible within certain limits.

The measures to improve the supply side of the equation show some similarities:

- Supply will be lifted by directly building new dwellings or providing the necessary infrastructure and labour to speed up construction activity.
- Both will ban foreign buyers for two years.

Both the major parties have some ambitious targets for new housing construction.

The ALP want to build 100,000 dwellings reserved for first home buyers. And another 40,000 social and affordable homes via the Housing Australia Future Fund.

The LNP claim their housing infrastructure fund will "unlock" up to 500,000 new homes. And that limiting home loan deductibility to *new* dwellings will encourage more construction.

The stumbling block for all of these proposals is the limited ability of the construction sector to deliver. Rising costs, materials and labour shortages and fixed-price contracts squeezed profit margins in the construction sector. Construction insolvencies and business failures rose as a result.

The national plan agreed between the Commonwealth and the States in 2024 illustrates the point. The plan aims to build 1.2 million new dwellings over the five years to 2029.

There is nothing wrong with an ambitious target. But that ambition has crashed into reality. We have never been able to run residential construction at that pace (Chart 9). And there is a persistent downtrend in new dwelling completions.

The bottom line is clear. The demand measures will work. The supply measures will probably fail to deliver. Rising dwelling prices are the most likely outcome. Noted independent economist, Chris Richardson, probably summed it up best. He called the major party housing policies a "dumpster fire of dumb stuff".

The consensus among the major banks is that dwelling prices will grow by 3-4% in 2025. Actual prices have already rise by ¾% in the first three months of 2025. Price growth could run ahead of Big Bank expectations.

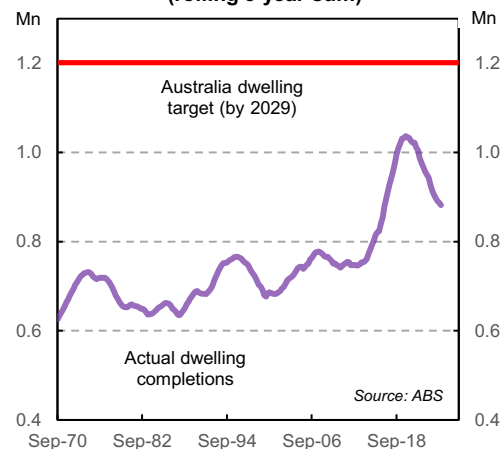
Table 2: Housing Proposals (Cont'd)

	Adds to demand	Adds to supply
Ban foreign buyers for two years		✓
Prefab housing and construction apprentice incentives		✓
<b>LNP</b>		
Access to Super (up to \$50k for a deposit)	✓	
Tax deductible mortgage payments for those buying a <u>new</u> dwelling	✓	✓
Cut loan serviceability buffer	✓	
Speed development of 500k new homes by fast tracking infrastructure such as water and power		✓
Freeze National Construction Code (to ease supply constraints)		✓
Ban foreign buyers for two years		✓

Source: Various

Chart 9

### DWELLING COMPLETIONS (rolling 5-year sum)



Housing sentiment indicators are already showing some response (Chart 10), assisted by the RBA's February rate cut:

- house price expectations are lifting;
- the proportion seeing now as a “good time” to buy a dwelling has lifted from 2023-24 lows; and
- the proportion seeing housing as a “good place” to invest is at the high end of the range.

The Election outcome remains uncertain. Some experts say the most likely outcome is a minority government that will require the ALP to get into bed with the Greens. So voters should parse their housing policies as much as those of the major parties.

The Greens housing policies involve: rent caps and freezes and a Renters Protection Authority. They also favour phasing out tax handouts such as negative gearing and capital gains tax discounts for investors with more than 2 properties. They would also like to see higher corporate taxes, anti-price gouging legislation and a faster energy transition.

It seems that Treasury is doing some work on negative gearing. The LNP argues that “modelling” such changes is under way. Treasurer Chalmers will admit only that he has asked for “advice”. Such is the state of play in Australian electioneering.

A better option may be to focus on *last-time buyers*. Helping last time buyers does not add to demand (they are already in the market) and eases supply constraints (by freeing up development sites).

## Education

Education is an area that rates more highly for Gen Z + Millennials who dominate the voter base in 2025.

LNP proposals are yet to be announced. ALP proposals centre around lifting the income threshold before repayments on student loans start. And cutting outstanding debt on student loans by 20%.

Cutting outstanding debt by 20% will cost \$16bn or \$5,520 for the average student. Student debt is one of those things that governments like to park “off Budget” – because it is supposed to be repaid by the student. Conveniently, it doesn't affect the underlying Budget deficit. But it still needs to be repaid. So what is happening here is that the repayment burden will shift from the student to the taxpayer (Chart 11).

Some commentators argue that students have better income prospects so should shoulder the burden. Others argue that the real problem is high and rising tuition costs.

Chart 10

### HOUSING SENTIMENT

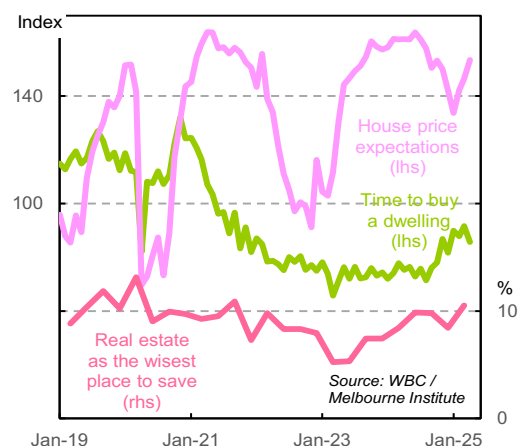


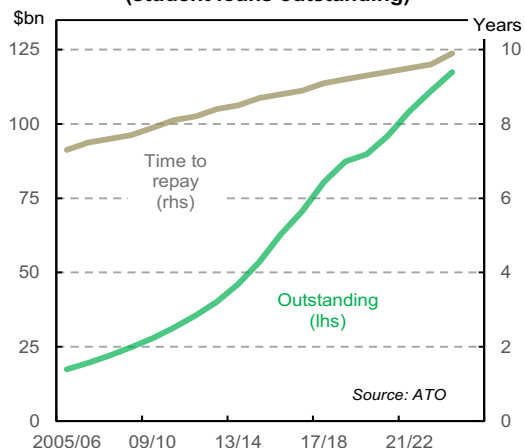
Table 3: Key Issues for Business

	ALP proposals will help	LNP proposals will help
Productivity		
Housing affordability	✓	✓
Energy policy	✓	✓
Skills shortage	✓	✓
Climate change	✓	✓
Tax reform	✓	✓

Source: AICD

Chart 11

### HECS/HELP DEBT (student loans outstanding)





### Business & the Election

There is a group that has not received much attention in this election. And that is business.

A couple of trends stand out in the issues that business think should be a government focus. “Productivity” has steadily increased in importance. “Climate change” has steadily declined. “Energy policy” and “housing affordability” have held at high levels (Table 3).

A glance down Table 3 shows that both major parties have proposed policies that cross over with business areas of concerns. But what the Table doesn’t reveal is that these policies offer a marginal benefit at most.

And, in some cases, the net policy impact could be negative. Housing affordability is a case in point. As discussed earlier, policy proposals add more to *demand* than *supply*. Higher dwelling prices and lower affordability are likely outcomes.

Energy policy has devolved into election sloganeering. The ALP’s “renewables are cheaper” vs the LNP’s “energy is the economy”. Beyond that, its blatant obfuscation about each other’s plans and costings.

In the short-term, small business will benefit from the ALP’s energy bill relief. Large businesses should benefit from the LNP’s gas reservation policy that will cut energy prices. The benefit is small in both cases.

Skills proposals by the major parties largely focus on measures to increase apprenticeships and vocational training through TAFE.

ALP plans emphasize direct financial support to apprentices and making TAFE education free. The LNP prefers employer incentives and expanding technical college infrastructure. Both have targets of helping 400,000 apprentices. Both sides plan to cut the migrant intake – that probably doesn’t help with the skills shortage.

Beyond that, business has to choose between instant asset write-offs of \$20k from the ALP or \$30k from the LNP.

The major campaign disappointment is the lack of any real productivity agenda. Productivity growth has collapsed in recent years. *Productivity* is one of the 3-P’s that drive growth and income in the Australian economy. The other P’s are *Population* and *Participation* (Chart 12).

All sides of the political spectrum acknowledge the need to boost productivity. But any real longer-term focus is sacrificed to short-term political needs. Both sides can point to a range of infrastructure initiatives as productivity driven. But there is little to turn the flatlining private infrastructure around (Chart 13).

Chart 12

#### AUSTRALIA: THE 3 P's (rolling 3-year average)

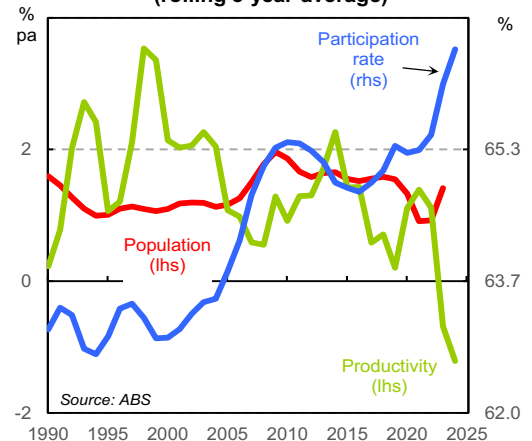


Chart 13

#### INFRASTRUCTURE SPENDING

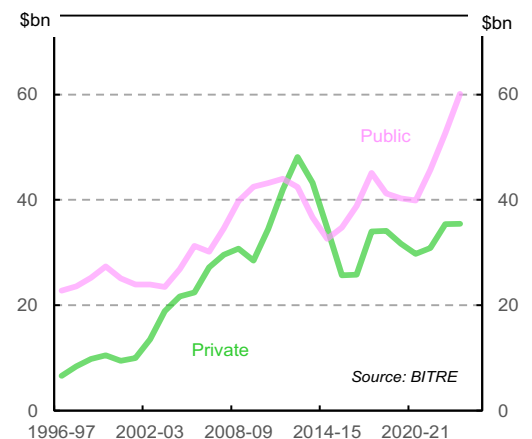
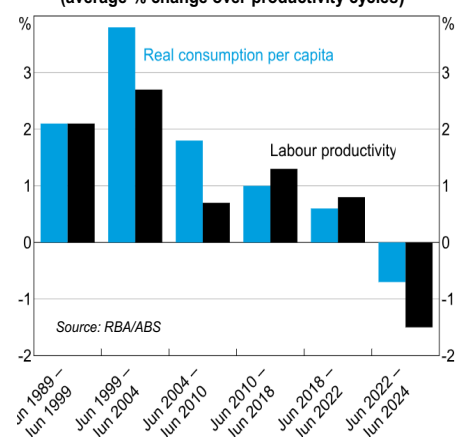


Chart 14

#### PRODUCTIVITY & CONSUMPTION (average % change over productivity cycles)



Economists, of course, love infrastructure because it generates activity and jobs in the short term. And boosts productivity in the medium-long term. There is also a strong correlation between productivity growth and consumer spending, given the importance of productivity in underpinning real income growth and capex (Charts 14 & 15).

More money for skills, childcare and instant asset write-offs will help. But the likely impact is small.

President Trump has emerged as an unexpected “candidate” in Election 2025. Neither political leader seems to know how to respond. We appear to have a choice between the ALP’s “Buy Australian” suggestion to the LNP’s “trust us” we will do better than Labor mantra.

Buy Australian is a legitimate approach. Such calls have been a feature of the landscape since the 1930s. But this longevity means that policy makers are preaching to the converted. Surveys, for example, show that 67% of respondents often or always Buy Australian (Table 4).

The downside to such schemes is that consumers may face higher prices, hurting lower income households in particular. Such schemes can misallocate resources and damage efforts to boost national productivity.

The LNP’s emphasis on better connections into the US Administration looks odd after Opposition Leader Peter Dutton admitted he had never met President Trump.

### The Election, fiscal & monetary policy

The recent 2025 Budget showed deficits running in a 1-1½% of GDP band all the way out to 2029/30 (Chart 16). *Net* debt was expected to peak at 23.8% of GDP in 2029/30. *Gross* debt finally punches through the feared \$1 trillion barrier in 2025/26.

Despite the spendathon during the election campaign, the broad fiscal backdrop is probably little changed.

The Charter of Budget Honesty requires Treasury to publish a Pre-Election Fiscal Outlook (PEFO). The idea is that this will be an independent view on the fiscal settings (ie untouched by politicians).

The PEFO, released on 7 April, reveals that the government had added an extra \$1.1bn to the Budget bottom line. This addition is a rounding error in the grander scheme of things.

Other election promises were largely hidden, or funded, inside the March Budget papers. The one exception it seems is the \$1,000pa work expenses tax deduction. This last minute addition is costed at \$2.4bn over the next four years.

Chart 15

### PRODUCTIVITY & CAPITAL DEEPENING (Q4 2019 = 100)

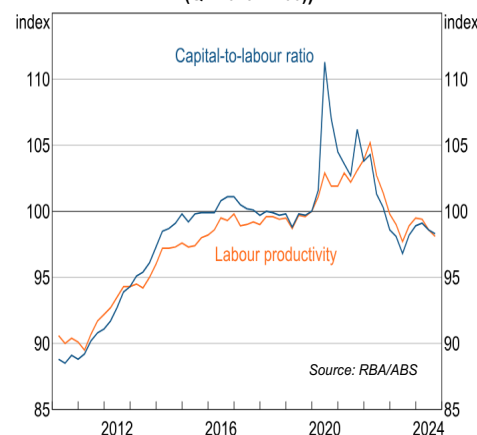


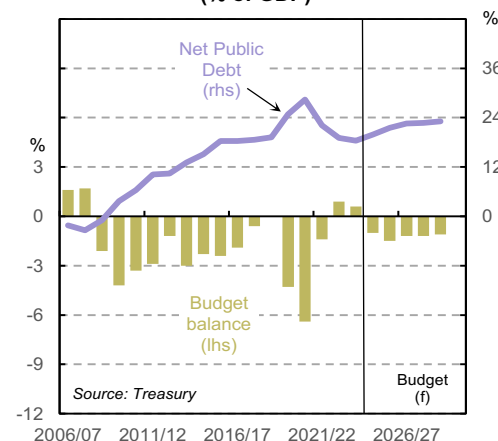
Table 4: Views on “Buy Australian”

	% of respondents
Buying Australian-made products is important to me	86%
I often or always Buy Australian	67%
Buying Australian makes me feel good	80%
I trust the Australian made logo	93%

Source: Roy Morgan

Chart 16

### KEY FISCAL INDICATORS (% of GDP)





The LNP has also been throwing money around. Information on funding measures are reasonably light. But the LNP will not go ahead with the ALP top-up tax cuts (saving \$17bn over four years), abolish the Housing Australia Future Fund (\$10bn), abolish green tax credits (\$16bn), abolish Rewiring the Nation Fund (\$20bn), withdraw support for the Melbourne Suburban Rail Loop (\$2bn), scrap EV tax breaks (\$3bn) and reduce the size of the public service.

One interesting LNP initiative is the idea to direct 80% of resource revenue “windfalls” into two new Funds to pay down debt and bankroll investments in regional areas.

The RBA is sitting quietly on the sidelines during the campaign. But they will be taking notes. Those notes will include:

- Further cost-of-living measures that mean households have more money to spend.
- Spending measures in general that mean government spending as a share of the economy will remain above pre-Covid norms.
- The ALP submission today to the Fair Work Commission recommending a real wage increase to award workers.
- The lack of measures to improve productivity.
- Upside inflation risks from the Trump trade war.
- Housing measures that will probably add to house price inflation.

At the height of the tariff panic in early April there were demands that the RBA should hold an “emergency” meeting and deliver a 100bpt rate cut immediately. The RBA refused to panic and those earlier demands for big rate cuts now look foolish.

The bottom line: the RBA will remain focused on the fundamentals that drive inflation rates over time. Additional rate cuts are still the best forecast. But the RBA may prefer to wait for greater clarity on how inflation risks are evolving. Look for rate cuts in the second half of 2025 (Chart 17).

## Elections, the economy & financial markets

Elections generate uncertainty – particularly those that result in a change in Government.

The standard expectation is that financial market volatility will rise and sentiment will take a hit.

The reality is that any significant or lasting impact is difficult to see:

Chart 17

### RBA FUTURES PRICING (30-day interbank cash rate)

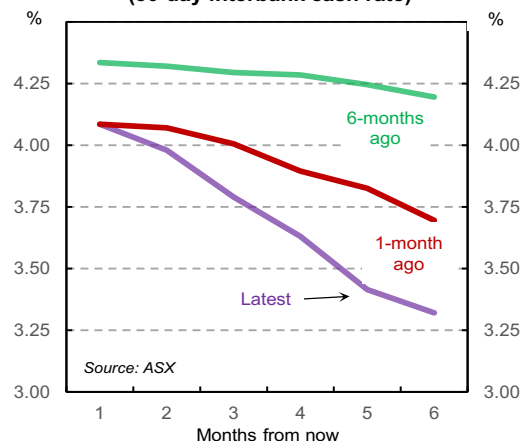


Chart 18

### Australia Economic Policy Uncertainty

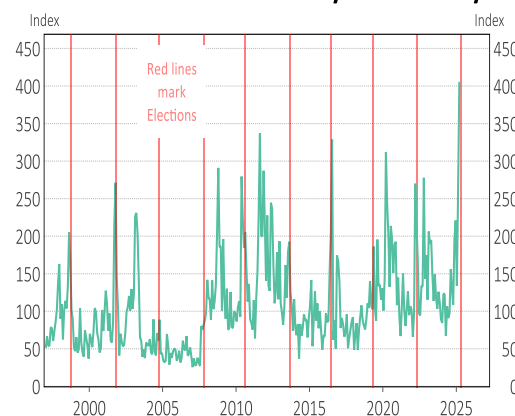
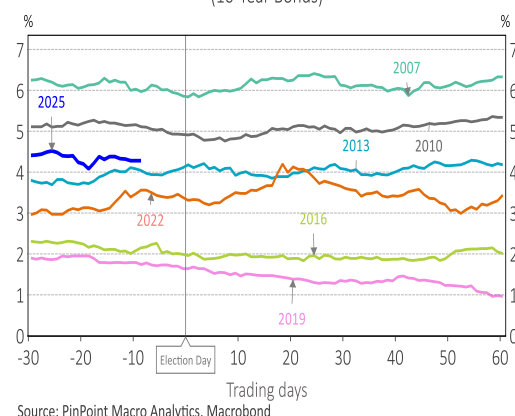


Chart 19

### Australia Bond Yields Around Elections

(10-Year Bonds)



- Policy uncertainty does rise and fall around elections (Chart 18). Uncertainty is at record highs at present. But that is more to do with offshore drivers rather than domestic politics.
- The belief in an unwritten convention that the RBA sits on the sidelines during election campaigns was dispelled in November 2007 when the Bank *lifted* the cash rate by 25bpts to 6¾%. The 2007 rate rise gets most of the attention. But rates were *cut* in the lead up to the September 2013 Election. The next RBA meeting is post-election – on 19-20 May.
- There is a (weak) tendency for bond yields to be a tad higher post-election than pre-election (Chart 19).
- There is some (weak) tendency for the AUD and equities to weaken immediately before an election and strengthen immediately thereafter (Charts 20 and 21).
- Surveys show little obvious variation in business and consumer sentiment around elections.
- Surveys do show some tendency for consumers to put off big ticket purchases pre-election with a quick recovery thereafter. Views on dwelling purchase are mixed around elections.

### And the winner is....

There are still some days to run. But it appears that voters have stopped listening. Earlier voting opened on 22 April. More than 1 million voters voted early in the first two days.

The opinion polls have slowly edged in favour of the ALP during the campaign proper. But the margin of error is large in these polls.

Betting markets have no such margins of error. The implied probabilities decisively favour a win by the ALP on 3 May (Chart 22).

The one true certainty is that democracy will be the winner on the day.

Meanwhile, I'm off to vote early!

This edition of *inFocus* was finalised on 24 April.

Chart 20

### S&P ASX 200 Around Elections

(Election Day = 100)

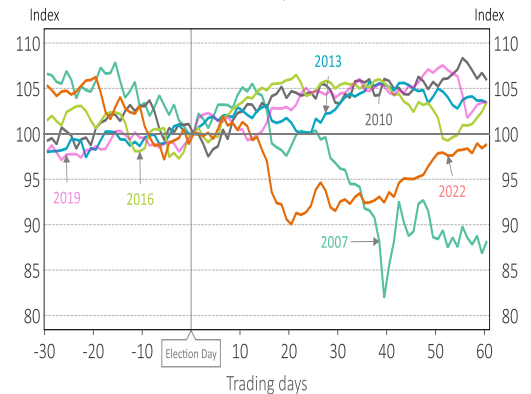


Chart 21

### AUD/USD Around Elections

(Election Day = 100)

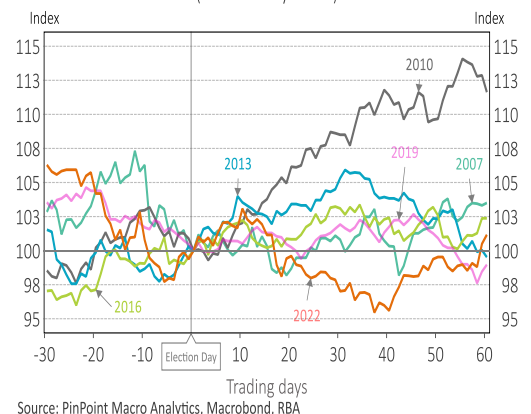
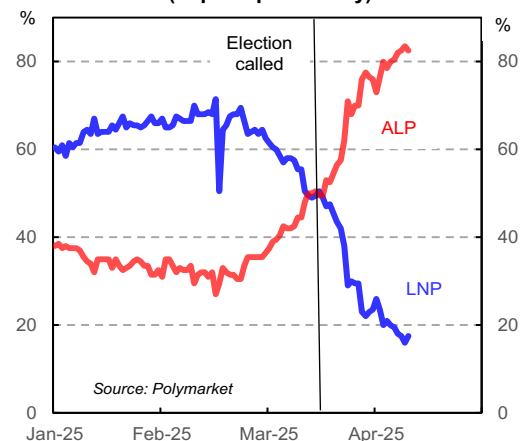


Chart 22

### ELECTION BETTING ODDS (implied probability)



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