



Australian Government

Department of Education, Employment and Workplace Relations

NSW BUDGET 2009-10

Summary

- The Budget result for 2009-10 is expected to be a deficit of \$990 million. This follows a deficit of \$1.3 billion in 2008-09 which was the first deficit since 1996. The budget is expected to return to surplus in 2011-12. NSW retains its AAA credit rating.
- NSW economic output is expected to decline by 0.5 per cent in 2009-10 and rise by 2.25 per cent in 2010-11. NSW employment is expected to fall by 1.75 per cent in 2009-10 and rise by 0.25 per cent in 2010-11. NSW's unemployment rate is expected to rise over the next 18 months and average 7.75 per cent in 2009-10 and 8.5 per cent in 2010-11.
- In 2009-10, NSW's capital expenditure will be \$18 billion as part of a \$62.9 billion investment in infrastructure over four years. This expenditure will support up to 160,000 jobs each year. Investment over the four years includes \$23.6 billion on transport with \$10.6 billion for road infrastructure.
- Alongside the capital expenditure, other initiatives to support employment include a \$200 million Local Infrastructure Fund to provide interest-free loans to councils for infrastructure projects and a \$35 million Community Building Partnership to partner with local community groups and sporting organisations to improve community facilities. The Western Sydney Employment Fund (\$4.4 million in 2009-10) and a Regional NSW Employment Fund (\$2.6 million in 2009-10) will be used to assist businesses in establishing or expanding.
- Education initiatives include requiring all students to complete their School Certificate and to be either in education, training or work until at least the age of 17 and investing more than \$140 million in 2009-10 towards the National Partnership on Productivity Places Program. Around \$15 million has been allocated in 2009-10 towards the \$75 million Learn or Earn initiative to improve trade skills by increasing uptake and completion of apprenticeships.
- A comprehensive reform of the NSW public service involves amalgamating 160 government agencies and offices into 13 departments to improve service delivery and improve economies of scale. The employment freeze on non-frontline positions remains in place.

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Economic and labour market outlook as reported in the NSW Budget papers

Summary

Growth in the NSW economy slowed in 2008-09 initially due to higher interest rates and subsequently in the face of the global financial crisis. The slowdown was partially offset by a strong recovery in agricultural output following two years of drought. The NSW economy is projected to decline modestly in 2009-10 under the weight of the global economic recession. A recovery is expected to commence in 2010 assisted by historically low interest rates and considerable fiscal stimulus.

After modest growth of 0.25 per cent in 2008-09, NSW economic output (GSP) is expected to decline by 0.5 per cent in 2009-10, with growth resuming at a below-trend 2.25 per cent pace in 2010-11. With steep falls in import-intensive business investment, state final demand growth is expected to fall by more than output growth in 2009-10. In 2010-11 improvements in consumer spending, housing investment and business investment should lead to slightly stronger growth in state final demand than output. The unemployment rate is expected to rise over the next 18 months and average 7.75 per cent in 2009-10 and 8.5 per cent in 2010-11.

Key Economic Forecasts
(% change, year average, unless otherwise indicated)

| | 2007-08 Outcome | 2008-09 Estimate | 2009-10 Forecast | 2010-11 Forecast |
|------------------------------------|--------------------|---------------------|---------------------|---------------------|
| Real Gross State Product | 2.8 | 0.25 | -0.5 | 2.25 |
| Real State Final Demand | 4.4 | 1.0 | -1.0 | 2.5 |
| Employment Growth | 2.4 | 0.0 | -1.75 | 0.25 |
| Unemployment Rate (% year average) | 4.6 | 5.75 | 7.75 | 8.5 |
| Sydney Consumer Price Index* | 4.3 | 1.75 | 2.0 | 1.5 |

* June quarter on June quarter

Gross state product (GSP) is the value of total State output. GSP relies on some synthetic data (interstate trade is estimated) and problems in distribution (the original supplier of export value-added, and end-user of import values are never known). State final demand (SFD) represents expenditure in the NSW economy and is a measure of spending rather than output. Although it excludes net exports, SFD tends to correlate well with aggregate employment and wage movements.

The Australian Government Budget forecasts are for national economic activity to decline by 0.5 per cent in 2009-10, employment to decline by 1.5 per cent and the unemployment rate to increase to 8.25 per cent in the June quarter 2009.

Labour market

The labour market softened in 2008-09 broadly in line with the slowing economy. Employment growth was flat in year average terms, and the average unemployment rate was one percentage point higher than in 2007-08. In year average terms, employment growth to the March quarter 2009 was strongest in mining, utilities, and in professional, scientific and technical services.

NSW employment is expected to decline by about 1.75 per cent in 2009-10 before a slow recovery gets under way in 2010-11. The unemployment rate is likely to rise from 5.75 per cent in 2008-09 to an average 7.75 per cent in 2009-10 and 8.5 per cent in 2010-11. While the labour market will weaken over the next 18 months, the deterioration will be much milder than in the downturns of the early 1980s (when unemployment remained above 10 per cent for 15 months, and over 11 per cent for five months) and the early 1990s (when unemployment stayed above 10 per cent for 20 months with a peak at 11 per cent in February 1993). Peak unemployment is likely to be lower in this cycle because the labour market has become more efficient, unemployment at the start of the downturn was lower, and the policy response has been much stronger and swifter.

Components of economic activity

Consumption spending

Consumer spending slowed in the first half of 2008-09, with annual growth averaging 0.6 per cent in the six months to December 2008, down from 4.0 per cent in the same period a year earlier. At the start of the year, spending was constrained by high petrol prices and interest rates, but both eased sharply with the global economic downturn. Falling equity wealth and rising unemployment contributed to consumer caution, but they appear to have been offset by Australian Government stimulus benefits. Surveyed consumer confidence has improved moderately over the course of 2008-09, though it remains well below long-run average levels. Retail sales volumes rose by 1.2 per cent in the December quarter 2008, and by a further very strong 2.5 per cent in the March quarter 2009. The pattern of consumer spending showed a “return to basics” with a shift away from consumer durables (especially vehicles) toward non-discretionary items (such as food and medical services).

Household consumption will be flat in 2009-10, with moderate growth in 2010-11. Household budgets will be constrained by falls in household wealth related to declining equity markets and real estate prices during 2008-09, rising unemployment and real income losses caused by the drop in the terms of trade. Offsetting factors will be falls in debt servicing costs following official interest rate reductions (by 4.25 percentage points during 2008-09 with possible further cuts during 2009-10), a gradual easing in consumer price inflation, and substantial increases in Australian Government transfer payments to households. Interest rates are expected to stay at or below current historically low levels for an extended period, and this should assist NSW consumers in the recovery phase.

Dwelling construction

Dwelling investment remained subdued during 2008-09. Investment declined by 6.0 per cent through the year to the December quarter 2008. After rising by 8.4 per cent through the year to the March quarter 2008, the ABS index of established house prices in Sydney declined by 7.3 per cent through the year to the March quarter 2009. On the positive side, increased grants to new homeowners in the Australian Government’s December 2008 stimulus package and in the 2008-09 Mini-Budget contributed to a 65 per cent increase in loan commitments to first home buyers through the year to the March quarter 2009. Because the benefit is larger for new construction and available only for a limited time, it is likely to have a positive effect on dwelling investment in late 2008-09 and into 2009-10. Dwelling approvals in the first three quarters of 2008-

09 were 26 per cent less than a year earlier, but they recorded an upswing in the month of April 2009.

Dwelling investment will remain under pressure in the near-term. However, underlying demand (as indicated by historically low rental vacancies, rapid growth in rental prices, and rising population growth supported by high overseas migration) remains very strong, and continues to outstrip supply. Monetary policy easings during 2008-09 have boosted housing affordability. Historically there is a strong lagged relationship between lower interest rates and higher dwelling investment, but this may be offset by fears of job loss in a weakening labour market. On balance, dwelling construction (boosted by Australian and NSW Government additional support for First Home Owners and other measures assisting the housing sector) is likely to record modest gains in 2009-10 (after five years of decline), followed by a stronger upswing in 2010-11.

Investment

Business investment increased by 5.2 per cent through the year to the December quarter 2008, with gains of 7.4 per cent for non-dwelling construction, and 2.5 per cent for plant and equipment investment. However, business investment seems likely to decline in the remainder of the year, in line with the steep falls reported in national business confidence surveys and the 90 per cent fall in national non-consumer capital goods imports through the year to the April quarter 2009.

Business investment is expected to slow in 2009-10, with a modest improvement in 2010-11. Weaker cash flow, tighter credit conditions and reduced equity valuations are likely to lead business to deleverage their activities and defer major projects. Most surveys since December 2008 continue to record low levels of business confidence and investment expectations.

While some investment (particularly in infrastructure and resources) remains “locked in” to large multi-year projects, elsewhere companies are likely to trim back investment plans, delay start-ups and slow implementation to adjust to weaker demand and higher financing costs (in equity as well as debt markets). While the decline is likely to be steeper in the resource states (Queensland, Western Australia and the Northern Territory) as current projects wind down and are not replaced, NSW business also will be affected.

Public sector investment will continue to expand strongly in 2009-10 and 2010-11, supported by increased State infrastructure spending alongside Australian Government fiscal measures.

Net exports

The downturn in world commodity markets may directly affect NSW less than the resource rich states, however NSW will be affected by the over 40 per cent reduction in thermal coal contract prices for 2009-10. Commodity prices should improve a little in 2010-11 as world industrial production begins to recover.

Net exports performance should improve in 2009-10. Exports growth will be assisted by normal conditions in agriculture after the strong recovery in 2008-09 from earlier drought and a stabilisation of thermal coal prices in 2009-10 and 2010-11 as Asian demand starts to strengthen again. Slower growth in consumer spending and lower business investment will translate into declines in imports.

Farm sector

Normal weather conditions are assumed in 2009-10, in line with the Bureau of Meteorology (BOM) climate projections as at end-May 2009. However the NSW Department of Primary Industries found in May that 60 per cent of NSW remained in drought, while the Murray-Darling Authority has reported very low river flows and water storage levels as at April 2009. Although agriculture accounted for less than 2.0 per cent of state output in 2007-08, the sector's volatility in response to drought, and the flow-on to agricultural supplier and user industries, mean that performance in this sector can appreciably affect aggregate state economic performance.

Prices and wages

Consumer price inflation, as measured by through-the-year change in the Sydney CPI, is expected to slow from 4.3 per cent at June 2008 to 1.75 per cent at June 2009. As demand eases, price pressures will decline further. Inflation is expected to ease to 1.5 per cent at June 2011, with a gradual return to the middle of the Reserve Bank of Australia's (RBA) two-to-three per cent target range thereafter, in line with projections in the May 2009 RBA *Statement on Monetary Policy*.

Wage growth, as measured by the Wage Price Index, is expected to moderate in response to softer labour market conditions, easing from 4.0 per cent in 2008-09 to 3.5 per cent in 2009-10 and 3.25 per cent in 2010-11.

Capital works

In 2009-10 the State's capital expenditure will increase by 29 per cent to \$18 billion. Over the four years to 2012-13, the State's capital expenditure is expected to be \$62.9 and will support up to 160,000 jobs each year.

Major infrastructure investment over the four years include:

- \$23.6 billion for transport including:
 - \$2.7 billion towards the Sydney Metro, \$804 million for the South West Rail Link and \$935 million for the Rail Clearways program.
 - \$10.8 billion on new road infrastructure, including \$3.2 billion for the Pacific Highway, \$1.5 billion for the Hunter Expressway and \$1 billion for the Southern Hume duplication and bypasses.
- \$15.7 billion for electricity including substantially enhanced funding for a major upgrade of the State's generation, transmission and distribution systems.
- \$5.4 billion for water and sewerage including \$338.5 million for the completion of the Sydney Desalination Project in 2010 (total investment \$1.9 billion) and \$335 million towards the completion of the Tillegra Dam by 2014 (total investment \$477 million).

- \$5.7 billion for education including \$2.6 billion on the school infrastructure program during 2009-10 which includes around \$1.8 billion of works from the Australian Government's Nation Building Economic Stimulus Plan.
- \$4.3 billion for housing to support the delivery an estimated 9,000 new social housing dwellings and upgrade work on existing homes.
- \$2.2 billion for health including \$286 million for Liverpool Hospital Redevelopment Stage 2 (total investment \$394 million), \$215 million for the Orange Bloomfield Redevelopment (total investment \$251 million) and \$138 million for the Royal North Shore Hospital (total investment \$973 million), and new funding for the expansion of Nepean and Narrabri Hospitals.

Employment and business initiatives

Community Building Partnership

The 2009-10 Budget establishes the NSW Community Building Partnership. This will provide \$35 million for local infrastructure projects across NSW. The fund will partner with local community groups and sporting organisations to deliver small projects that improve community facilities while providing job opportunities for local tradespeople. Extra funds will be made available for areas with higher unemployment.

Local Infrastructure Fund

The 2009-10 Budget establishes the \$200 million Local Infrastructure Fund. This Fund will provide interest free loans to councils to bring forward investment in local infrastructure. This will provide an immediate economic stimulus, supporting jobs and new housing developments, and unlocking council funds held for future new projects.

The Western Sydney and NSW Regional Employment Funds

The 2009-10 Budget establishes two employment funds with an investment of \$19 million over two years: a Western Sydney Employment Fund (\$4.4 million in 2009-10) and a Regional NSW Employment Fund (\$2.6 million in 2009-10). These funds will be used to assist businesses in establishing or expanding, and will help to secure jobs in these regions.

Training our workforce

The NSW Government will also invest \$6 million over two years to retrain workers who have lost their jobs and assist them to return to work. See also details of the National Partnership on Productivity Places Program in the section below on education and training initiatives.

Housing Construction Acceleration Plan

The Government will introduce a Housing Construction Acceleration Plan to support growth and construction jobs in the housing sector. From 1 July 2009 until 31 December 2009 purchasers of newly constructed dwellings, other than first home

buyers, will only pay 50 per cent of the transfer duty payable on properties up to \$600,000, providing savings of up to \$11,245 per property.

The Budget also extends the existing first home buyer supplement to 30 June 2010, which provides an additional \$3,000 to first home buyers purchasing newly constructed dwellings. Eligible first home buyers will continue to receive the \$7,000 first home owners' grant, as well as exemptions on stamp duty on properties up to \$500,000 (tapering out at \$600,000). Including the Australian Government's First Home Owners Boost, NSW first home buyers can receive benefits of up to \$41,990.

Building the Country Package

The Building the Country Package is an \$85 million five-year program to assist country businesses and communities. The package includes funding for local infrastructure, community broadband development, water adjustment, and support for local chambers of commerce, country halls and libraries.

Major Investment Attraction Scheme

As part of the NSW Government's response to the Jobs Summit, the Major Investment Attraction Scheme will receive funding of \$70 million over four years to continue its role of using financial incentives to attract major investments to NSW. In 2008-09, Government support attracted projects worth \$2.2 billion, supporting around 8,000 jobs.

Tax relief

The 2009-10 Budget implements the second stage of payroll tax relief to NSW businesses:

- payroll tax will be reduced from 5.75 per cent to 5.65 per cent from 1 January 2010
- the rate will be further reduced to 5.5 per cent from 1 January 2011 and
- the payroll tax threshold will be increased from \$623,000 to \$638,000 on 1 July 2009.

The full package of payroll tax changes since 2008-09 will save NSW businesses around \$2.7 billion by the end of 2012-13.

Small business development

The 650,000 small businesses in New South Wales provide employment for more than one million people. The 2009-10 Budget will provide a total of over \$20 million to small and medium businesses throughout the State to support jobs growth and retention through improved business skills, expanded markets and the adoption of innovative business practices.

Education and training initiatives

A new initiative requires all students to complete their School Certificate and to be either in education, training or work until at least the age of 17. This will cost \$100 million per year when fully implemented.

In 2009-10 the NSW Government will spend more than \$140 million towards the National Partnership on Productivity Places Program. Over four years this program will invest \$670 million in providing almost 175,000 additional training places. These training places will target job seekers and existing workers in skill shortage areas and will include an extra 28,000 places for apprentices.

Around \$15 million has been allocated in 2009-10 towards the \$75 million Learn or Earn initiative to improve trade skills by increasing uptake and completion of apprenticeships.

Total investment in school education services for 2009-10 is estimated at \$9.9 billion. This includes over \$351 million that is estimated to be received from the Australian Government to support a number of National Partnerships between the NSW and Australian Governments. The combined expenditure under these partnerships for 2009-10 is forecast to be:

- \$120 million towards the Low Socio-Economic-Status School Communities National Partnership, encompassing strategies to lift the results of students in disadvantaged communities.
- \$6 million towards the Teacher Quality National Partnership encompassing strategies to attract, train, develop and retain quality teachers and principals.
- \$44 million towards the Literacy and Numeracy National Partnership including monitoring to identify in-need students, and effective evidence based support programs.
- \$117 million toward the Best Start literacy and numeracy initiative for kindergarten students.
- \$47 million for the Connected Classroom initiative, to provide interactive whiteboards, video-conferencing facilities and on-line learning tools.

The 2009-10 Budget includes \$2.7 billion investment in school and TAFE infrastructure in NSW, including:

- The start of 17 major new building projects in schools including Cabramatta and Wauchope and the continuation of major projects in 38 schools including Bega, Carlton, Kempsey and Hazelbrook.
- The start of 13 major projects at TAFEs including Armidale, Dubbo and Macquarie Fields, and continuation of works at Dubbo, Castle Hill and Tamworth.
- \$1.8 billion in 2009-10 under the Australian Government's Nation Building – Economic Stimulus Plan to improve all school facilities across the State.

Other initiatives

- The Keep Them Safe: A shared approach to child wellbeing program involves an investment of \$750 million from 2009 to 2014. In 2009-10, \$35 million will be invested to expand services for vulnerable families, including investment in

prevention and early intervention, services for families already in the child protection system and services for Aboriginal families (\$197 million over four years); and \$57 million to implement changes to the child protection system to confine statutory intervention to cases where it is really necessary (\$170 million over four years).

- The \$3.9 million Better Futures program focuses on youth participation, keeping young people in school and improving educational outcomes.
- \$5.5 million is provided for the Building Strong Foundations for Aboriginal Children, Families and Communities program and \$10 million for remote housing under the Aboriginal Communities Development Program (ACDP).