

## **Federal Treasurer's State of the Economy Speech**

On Thursday 28 July 2022, Federal Treasurer Jim Chalmers delivered a state of the economy speech in parliament. The speech comes a day after the annual inflation figure was released at 6.1%, and ahead of Labor's new budget planned for delivery in October.

The Treasurer used his speech to highlight how Australia's economy is being influenced by global circumstances, including supply chain disruptions caused by China's COVID-19 containment measures, and Russia's invasion of Ukraine.

In the background of this speech, the US Federal Reserve has raised interest rates again by 0.75% in response to an annual inflation rate of 9.1%.

Chalmers also pointed to conditions that had been building under the former government, including energy policy paralysis and stagnant wages growth, as additional causes of Australia's economic circumstances.

The Treasurer identified high and rising inflation, falling real wages, and choked supply chains as the defining challenges facing the Australian economy.

To deal with these challenges, Chalmers outlined the Government's priorities as cutting childcare costs, growing wages through training opportunities and investing in industries that deliver stable, high paying employment, investing in clean energy, addressing skills shortages, and delivering a National Reconstruction Fund.

Key economic forecasts:

### **GDP Growth**

Treasury's estimated GDP growth for the 2021-22 financial year has been trimmed back from 4.25% to 3.75%.

Growth forecasts for 2022-23 and 2023-24 have also seen half-point reductions, with the current financial year's GDP growth estimated to be 3%, down from 3.5%, and next year's forecasted at 2%, down from 2.5%.

### **Inflation**

June's quarterly update to the consumer price index at 6.1% is Australia's highest inflation rate since the introduction of the GST 21 years ago.

The Treasurer has indicated that the inflation rate is expected to peak at 7.75% in the December quarter.



Treasury expects inflation to fall to 3.5% by the end of 2023, and 2.75% by mid 2024.

### **Wages and Employment**

The Treasurer has left the door open for further wage increases and denies that higher wages are driving inflation.

Forecasted wages growth is being upgraded from 3.25% to 3.75% for both the current and next financial years.

Real wages are not expected to grow until 2023-24, with inflation predicted to fall in that year.

The unemployment rate is expected to remain low before returning to 3.75% by June next year, and 4% by June 2024.

The RBA will release its own forecasts on 5 August 2022.

### **Further Information**

For more information, please contact Hawker Britton's Managing Director Simon Banks on +61 419 648 587.