BRETTONOMICS · AUSTRALIAN CONTEXT · UNIT 4 TOPIC 2

Indicators & Budget Outcomes

Australian indicator data and federal budget outcomes, 2015 to 2024

How to use this guide

This companion holds the Australian evidence for the topic. Information is colour-coded and labelled; each coloured box carries a word label as well as a colour, so you can use it whether or not you distinguish the colours easily.

KEY DEFINITION	What a measure means and how it is defined.
AUSTRALIAN CONTEXT	Australian evidence, data or events you can quote as examples.
WORKED EXAMPLE	A calculation worked through step by step.
COMMON MISTAKE	A misreading of the data that commonly costs marks.
EXAM TIP	How to use this evidence in an exam response.
BRETTONOMICS INTERACTIVE	A matching interactive tool on brettonomics.com.

EXAM TIP

Using these figures

Always date your data. Every figure here belongs to a point in time. In an exam, state the period and the source — "unemployment was 4.0% in December 2024 (ABS)" earns the mark that a bare number does not.

Check before you quote. Economic data is revised. Confirm the latest figure against the ABS or RBA before relying on it in assessment.

SECTION 1 Key Australian economic indicators & data sources

1.1 Leading Indicators (What to Watch for Future Trends)

Indicator	Current Value (2024)	Trend	Meaning
Consumer Confidence Index	93–95	Recovering from lows	Weak; consumers cautious despite rate cut expectations
Building Approvals	~11,000/month	Declining	Property downturn moderating; less new construction
Share Market (ASX 200)	~7,200	Recovering	Investor optimism building on rate cut hopes

Indicator	Current Value (2024)	Trend	Meaning
Credit Growth	3–4% p.a.	Slowing	Consumers & businesses borrowing less (cautious)
Business Investment Intentions	Moderate	Flat	Companies hesitant to invest amid uncertainty

Interpretation (Late 2024): Mixed signals. Weak consumer confidence suggests subdued growth ahead; but building approvals bottoming and credit stabilizing suggest worst may have passed. Expect modest recovery if RBA cuts rates.

1.2 Coincident Indicators (Current Economy Status)

Indicator	Current Value (2024)	Target/Benchmark	Status
Real GDP Growth	1.5%	2–3% (trend)	BELOW TARGET – sluggish
Unemployment Rate	4.1%	4.0–4.5% (NAIRU)	ON TARGET – labour market equilibrium
Inflation (CPI)	3.0%	2–3% (RBA target)	ACCEPTABLE – upper end of target
Retail Sales Growth	2–3% p.a.	3–4% (healthy)	WEAK – households constrained
Business Investment	~20% of GDP	~22% (pre-2020s)	WEAK – below pre-pandemic
Industrial Production	Flat	Growing	STAGNANT – concerning

Interpretation: Economy is weak but stable. Not in crisis, but not growing as needed. Real wages stagnation is the core problem.

1.3 Lagging Indicators (Confirming Past Trends)

Indicator	2021	2022	2023	2024	Status
Unemployment Rate	4.2%	3.7%	3.7%	4.1%	Rising (confirms contraction phase)
Inflation Rate	1.0%	6.7%	4.0%	3.0%	Falling (confirms peak passed)
Wage Growth	1.4%	2.2%	2.3%	2.5%	Stable low (wage growth modest)
Housing Prices	Peak	Falling	Stabilizing	Flat	Confirms 2022 peak, 2023 contraction

Interpretation: Lagging indicators confirm the RBA's tightening cycle worked. Inflation peaked mid-2022; unemployment bottoming now. Policy is beginning to work (delayed effect).

1.4 Where to Find Official Data

- Real GDP, inflation, unemployment, participation rate: Australian Bureau of Statistics (ABS) – www.abs.gov.au
- RBA cash rate, inflation forecasts: Reserve Bank of Australia (RBA) – www.rba.gov.au
- Business conditions, investment: National Bureau of Economic Research, Roy Morgan Research
- Consumer confidence: Westpac Consumer Confidence Index, Roy Morgan Sentiment
- Building approvals, retail sales: ABS monthly/quarterly releases
- Government budget outcomes: Treasury – budget.gov.au

SECTION 2 Australian federal budgets (2015–2024) – analysis

2.1 Budget Framework & Terminology

Budget Stance Classification: - Expansionary: Deficit (G > T), stimulates economy, increases AD - Contractionary: Surplus (G < T), restrains economy, decreases AD - Neutral: Balanced (G = T), no net fiscal impulse

Cyclical vs. Structural Deficit: - Cyclical: Temporary, caused by weak cycle (automatic stabilisers) - Structural: Underlying imbalance requiring reform (spending cuts / tax rises)

2.2 2015–2016 Budget (Turnbull Government)

Economic Context: - Post-mining-boom downturn - Real GDP growth: 2.0–2.5% (weak) - Unemployment: 5.5–6.0% (elevated) - Inflation: 1.5–2.0% (low, below target) - Cycle position: Contraction/Trough

Budget Stance: - Total deficit: $37 billion (~2% of GDP) - Stance: Expansionary (increased stimulus) - Key measures: - Company tax cuts proposed (30% → 25%) - Infrastructure spending ($50bn pipeline) - "Road to surplus" narrative (aspirational)

Rationale: - Weak growth, high unemployment → needed stimulus - Deflation risk (inflation 1.5%) → needed demand support

Actual Outcome: - Growth remained sluggish 2–3% (lags expected) - Unemployment slow to fall (takes 12–18 months) - Expansion began emerging but weak

Assessment: Appropriate timing and magnitude – expansionary policy correct for contraction/trough phase. But multiplier effects slow; results took time.

2.3 2017–2018 Budget (Turnbull Government)

Economic Context: - Early-to-mid expansion - Real GDP growth: 2.5–3.0% (improving) - Unemployment: 4.5–5.0% (falling) - Inflation: 1.5–2.0% (still low) - Cycle position: Expansion

Budget Stance: - Total deficit: $23 billion (~1.2% of GDP) - Stance: Slightly expansionary (continued stimulus, but less) - Key measures: - Company tax cuts 30% → 27.5% (partial implementation) - Personal tax cuts proposed (didn't pass) - Infrastructure investment continued

Rationale: - Growth accelerating, but still below trend - Unemployment falling, but not yet at NAIRU - Inflation low (below 2% target floor) - Wanted to support expansion but gradually reduce deficit

Actual Outcome: - Expansion continued, unemployment fell toward 3.4% - Growth eventually peaked 2018 (3.5%) - Inflation remained low through 2018 (1.5–2%)

Assessment: Appropriate but risky timing – continued stimulus supported recovery, but by 2018 economy was approaching peak; expansion-phase stimulus can overheat. RBA rate cuts (2019) added further stimulus → boom conditions building.

2.4 2019–2020 Budget + COVID Emergency Response (Morrison Government)

Economic Context (Pre-COVID): - Peak expansion - Real GDP growth: ~2.0% (slowing) - Unemployment: 3.4–3.5% (below NAIRU) - Inflation: 1.5–2.0% (still low) - Cycle position: Peak/starting contraction

COVID Shock (March 2020): - Sudden collapse: Unemployment spiked 7.2%, retail sales crashed - Cycle position: Trough (crisis)

Budget Response: - 2019–2020 budget deficit: $37 billion (normal pre-COVID) - COVID emergency packages: +$200 billion+ in total stimulus

COVID Stimulus Measures: - JobKeeper ($87 billion): Wage subsidies to keep workers attached to jobs - Cash transfers: $1,500–$2,000 per adult (three tranches, $130 billion total) - Mortgage/rent holidays: Arrears relief - Business support: Grants, loan guarantees

Rationale: - Emergency prevention of depression-level contraction - Massive unemployment risk; prevent permanent damage to labour market - Supply-side restrictions (lockdowns) → needed demand support - "Whatever it takes" fiscal policy

Actual Outcome: - Unemployment peaked 7.2% (vs. feared 10%+) - GDP fell only −7% in Q2 (vs. feared −15%+) - Recovery began by Q3 2020 - Fiscal multiplier ~1.5–2.0 (very high, spare capacity)

Assessment: Appropriate and effective – timing perfect (emergency), magnitude necessary (prevented depression), design targeted (JobKeeper kept workforce attached). One of Australia's best policy responses.

2.5 2021–2022 Budget (Morrison Government) – Early Recovery

Economic Context: - Strong recovery phase - Real GDP rebounded strongly — through-the-year growth to the June 2021 quarter reached roughly 9–10%, flattered by the base effect of the 2020 collapse - Unemployment: Falling from 7.2% (July 2020) → 4.2% (December 2021) - Inflation: 1.0% (still low) - Cycle position: Expansion (strong)

Budget Stance: - Final budget outcome: a deficit of $32.0 billion (1.4% of GDP); the budget-time estimate had been about $80 billion - Stance: Continued expansionary (extended stimulus) - Key measures: - Extended JobKeeper beyond March 2021 (eventually unwound) - Extra unemployment benefits ($150/fortnight supplement extended) - Childcare subsidy increases - Infrastructure spending acceleration

Rationale (Given): - Recovery still fragile - Unemployment still elevated relative to NAIRU - Needed support to sustain momentum

Assessment – In Hindsight: PROBLEMATIC TIMING - By mid-2021, unemployment was falling rapidly (3.4% by March 2022) - GDP growth rebounded well above trend - Inflation began rising (1.0% → 2.2% through 2021) - Combined with RBA's ultra-low rates (0.1%), stimulus was excessive - Contributed to inflation overshoot (peaked 7.8% in the December 2022 quarter)

Lesson: Expansionary policy in strong expansion = overheating risk. This budget timing error was a key contributor to the 2022 inflation crisis.

2.6 2022–2023 Budget (Albanese Government) – Peak/Contraction

Economic Context (Early 2022): - Peak expansion turning to contraction - Real GDP growth: 3.5% (strong, but slowing) - Unemployment: 3.4% (below NAIRU, very tight) - Inflation: 7.8% (crisis level) - Cycle position: Peak → Contraction

Budget Stance: - Final budget outcome: a surplus of $22.1 billion (0.9% of GDP), the first in 15 years - Stance: Restraint in outcome (trying to consolidate, but not aggressively) - Key measures: - Ended JobKeeper immediately (appropriate) - Cost-of-living relief (energy rebates, rent assistance) - Some spending restraint, but focused on vulnerable households

Rationale: - Inflation crisis required fiscal restraint - But cost-of-living squeeze (real wages falling, energy bills up) needed targeted support - Conflicting objectives: Fight inflation vs. help struggling households

Actual Outcome: - Economy contracted (near-recession) - RBA raised rates 425bp (0.1% → 4.35%) - Inflation eventually peaked then fell - Government deficit widened despite intent (cyclical effect)

Assessment: Mixed – difficult policy mix - Timing generally correct (restraint in contraction needed) - But magnitude insufficient (tried to do too much); should have been more contractionary earlier - Cost-of-living measures were targeted & appropriate (higher MPC)

2.7 2023–2024 Budget (Albanese Government) – Trough/Early Recovery

Economic Context: - Trough/early recovery - Real GDP growth: 0.2% YoY (stalled) - Unemployment: 3.7–4.1% (near/at NAIRU) - Inflation: 4.0% → 3.0% (falling toward target) - Cycle position: Trough/Early Expansion

Budget Stance: - Final budget outcome: a surplus of $15.8 billion (0.6% of GDP) - Stance: Targeted support delivered within a surplus - Key measures: - Stage 3 tax cuts ($9 billion/year from July 2024) - Energy bill support continued ($100–150/household) - Childcare subsidy expansion (30 hours free/week) - Infrastructure continued ($120bn over 10 years)

Rationale: - Weak growth (1.5%) below trend (2–3%) - Cost-of-living crisis persists (real wages still falling, though less sharply) - Need support to help recovery without excessive stimulus

Design Assessment: - Stage 3 tax cuts: Broad-based, favours high earners (lower MPC → smaller multiplier) - Energy support: Targeted, higher MPC → better bang for buck - Childcare: Productivity play (labour force participation) + targeted support

Actual Outcome (Expected 2024–25): - Growth expected to improve modestly (1–2%) - RBA expected to cut rates (from 4.35% to ~3.85%) - Real wages expected to stabilize/slightly improve

Assessment: Appropriate timing and design - Expansionary stance correct for weak growth phase - Targeting important (energy + childcare) more effective than broad cuts - But magnitude modest; will it be enough to restore 2–3% trend growth?

2.8 Structural vs. Cyclical Deficit Analysis

Cyclical versus structural, in practice: the surpluses of 2022–23 ($22.1bn) and 2023–24 ($15.8bn) were largely cyclical — record commodity prices and high employment lifted receipts — while the underlying structural position remained in deficit. That is why Treasury projected a return to deficits from 2024–25 even as the economy kept growing.

What This Means: - If economy recovers to trend growth, cyclical deficit disappears - Structural deficit remains → requires either: - Revenue increases (tax rises) - Spending cuts (welfare, defence, etc.)

Long-Term Structural Challenge: - Aging population → pensions rising - NDIS costs escalating faster than revenue growth - Without reform, structural deficit will widen permanently - By 2040s: Unfunded liabilities very large

SECTION 3 Case studies in economic indicators

3.1 The 2022 Inflation Peak: What Indicators Told Us

Leading Indicators (Warned 6 Months Earlier) - Consumer confidence fell late 2021 (warned of demand shock) - Credit growth slowed (showed demand weakening) - Share markets peaked Jan 2022 (suggested turning point)

Coincident Indicators (Real-Time Picture) - Retail sales stagnant (demand weakening) - Producer price index spiking (input costs rising) - Business investment declining (firms hesitant)

Lagging Indicators (Confirmed Trend) - Inflation peaked at 7.8% in the December 2022 quarter (the monthly CPI indicator peaked at 8.4% in the same month) - Unemployment fell to 3.4% (showed earlier tightness) - Wage growth accelerating (confirmed tight labour market)

Key Lesson: All three indicator types together painted a coherent picture. Leading indicators warned; coincident showed real-time deterioration; lagging confirmed the peak was real and lasting.

3.2 Understanding Labor Market Indicators

Unemployment Rate Limitations: - 4.1% headline (October 2024) - But underemployment 6.0% (part-timers wanting full-time) - Hidden unemployment ~1% (discouraged workers) - True underutilisation: ~10.0% (much slack not shown in headline)

Why This Matters: - RBA uses unemployment in policy, but headline 4.1% suggests tightness - Labour force underutilisation 10.0% suggests more slack than apparent - Discrepancy shows: Many people want more hours, not all unemployment is cyclical

Participation Rate Insight: - Rising from about 65% to 67.1% (2022 → 2024) - Shows immigration adding to labour force despite weak growth - Without immigration, participation would be flat (aging population effect)

3.3 Real Wages: Most Important Indicator of Living Standards

Official Data (ABS): - 2020: $65,000 (nominal average) - 2024: $70,000 (nominal average) - Growth: +7.7% nominal

Adjusted for Inflation: - 2020 real value: $65,000 - 2024 real value: $67,050 (in 2020 dollars) - Growth: +3.2% real (not 7.7%)

But Wait – Public Perception is Different: - Many workers experienced real wage falls of 4–5% - Discrepancy because: - Wage growth uneven (high earners got more) - Inflation hit unevenly (energy, housing up 15%+; cars down) - Shift to casual/part-time (lower average wages)

Conclusion: Average real wage growth 3.2% masks significant squeeze on middle/lower earners.

SECTION 4 Trade-offs & conflicting objectives (2015–2024)

4.1 Growth vs. Inflation (The Classic Trade-off)

2021–2022 Period: - Government wanted growth + low unemployment - Implemented fiscal stimulus while growth already 3.5% - RBA kept rates 0.1% while inflation rising - Result: Inflation overshot to 7.8%

2022–2023 Period (The Correction): - Shift to fighting inflation - RBA raised rates 425bp - Result: Unemployment rose, growth fell to 0.2% YoY - Temporary cost to long-term stability

Trade-off visible: Short-run choice between growth and inflation; long-run requires accepting NAIRU unemployment.

4.2 Cost-of-Living Relief vs. Inflation Control

Government Dilemma 2022–2024: - Real wages falling (−4.5%), energy bills up 40%, rent rising - Households struggling - But inflation was 7.8% → needed restraint

Policy Response: - Tried both: Restraint on overall stimulus, but targeted relief - Energy bill support (direct) - Childcare subsidies (indirect wage boost) - Stage 3 tax cuts (delayed until July 2024)

Trade-off: Help struggling households (good for inequality) vs. risk re-igniting inflation (bad for macro stability)

4.3 Full Employment vs. Price Stability

2021–2022: - Achieved full employment (U = 3.4%) - But inflation spiked (7.8%) - Government couldn't have both

2024: - U = 4.1% (near NAIRU) - Inflation = 3.0% (within target) - Both objectives roughly achieved (equilibrium)

SECTION 5 Assessment of government economic management (2015–2024)

5.1 Achievement of Macroeconomic Objectives

Objective	Target	2015	2020	2024	Assessment
Growth	2–3%	2.2%	−3.2%	1.5%	MIXED – below target since 2020
Employment	Full (NAIRU 4–4.5%)	5.7%	7.2%	4.1%	GOOD – at NAIRU now, came from far away
Inflation	2–3%	1.5%	0.9%	3.0%	FAIR – overshot badly (7.8%), now back on track
External	~3% deficit manageable	−2.3%	−2.4%	−3.0%	ACCEPTABLE – deficit rising but manageable
Living Standards	Rising real wages	+0.5%	−2%	−4.5%	FAILED – wages fell sharply 2020–24
Sustainability	Debt ratio stable	Trending up	Up sharply	Up further	POOR – long-term concern

5.2 Fiscal Policy Effectiveness & Timing

Successes: 1. COVID stimulus (2020): Emergency response well-timed, sufficient to prevent depression 2. 2016 stimulus: Appropriate for contraction/trough phase 3. Energy/childcare targeting (2023–24): Targeted relief more efficient than broad stimulus

Failures: 1. 2021–22 extended stimulus: Poorly timed during peak expansion; contributed to inflation overshoot 2. Structural deficit rising: Long-term fiscal position unsustainable without reform 3. Real wage deterioration: Government unable/unwilling to implement policies supporting real wage growth

5.3 Cyclical vs. Structural Causes of Budget Deficits

2016–2020 Deficits: - Partly cyclical (weak growth, high unemployment after mining boom) - Partly structural (aging population, NDIS emerging costs)

2020–2021 Deficits: - Entirely cyclical (COVID emergency)

2022–2024 Deficits: - Partly cyclical (weak growth post-tightening) - Increasingly structural (NDIS, aging pension costs)

Outlook (2025–2030): - Structural deficit will dominate unless government reforms spending/tax - Long-term fiscal sustainability increasingly at risk

SECTION 6 Key insights from Australian budget analysis

6.1 Why Timing Matters More Than Size

- Good timing, right size: COVID stimulus 2020 (emergency response)
- Good timing, excessive size: 2021–22 stimulus (pushed inflation)

- Poor timing, right size: 2015 stimulus during persistent weakness (ok, but slow recovery)

Lesson: A moderately-sized stimulus at right time beats large stimulus at wrong time.

6.2 Design Matters as Much as Scale

Broad tax cuts: - MPC of high earners: 0.4–0.5 - Multiplier impact: Small - Example: Stage 3 tax cuts (2024) → large cost, modest growth impact

Targeted welfare support: - MPC of low-income recipients: 0.7–0.8 - Multiplier impact: Larger - Example: Energy support (2024) → smaller cost, better growth impact

Lesson: Who gets the stimulus determines its effectiveness.

6.3 Indicators Can Be Misleading Without Context

2024 Unemployment 4.1%: - Seems "low" → tight labour market - But underutilisation 10.0% → significant slack - Leading indicators weak → growth concerns ahead

Interpretation: Don't judge cycle position from one indicator; use three types together.

6.4 Long-Run Sustainability Is the Real Challenge

Near-term (2024–2025): - Growth weak but stabilising - Inflation under control - Employment near equilibrium - Manageable challenges

Long-term (2025–2035): - Aging population → pensions rising - NDIS costs escalating - Climate change adaptation costs emerging - Structural deficit must be addressed - Government needs fiscal reform or deficits spiral

Lesson: Government economic management is judged in elections by near-term performance (growth, unemployment); but long-term sustainability (debt, pensions) is the real test.

SECTION 7 Study guide summary

Using Indicators Effectively:

- Never use one indicator alone – combine leading, lagging, coincident
- Understand limitations – unemployment doesn't capture underemployment; CPI varies by household
- Look for consistency – if indicators tell different stories, dig deeper
- Compare to benchmarks – growth 1.5% vs. 2–3% target shows weakness

Analyzing Past Budgets:

- Assess cycle position – expansion, peak, contraction, trough?
- Evaluate stance – is budget expansionary or contractionary? Appropriate?
- Examine design – who benefits? High/low MPC?
- Assess timing – was budget implemented when most effective?
- Measure outcomes – did objectives get achieved? Unintended consequences?

Australia's Current Challenge:

- Near-term: Weak growth (1.5%) + cost-of-living crisis
- Medium-term: RBA rates normalizing; inflation controlled
- Long-term: Structural deficit unsustainable; reforms needed