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TREASURER OF THE COMMONWEALTH OF AUSTRALIA

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Introduction

Good morning.

It's a pleasure to be here to address the Australian Industry Group.

As I stand here today, we are continuing to tackle the largest health and economic shock of our generation.

That is something this audience knows all too well.

These challenges notwithstanding, I have two clear and positive messages for all Australians.

First, the fundamentals are now in place for a strong and sustained economic recovery.

The Australian economy has weathered every storm throughout this pandemic.

Each time, we have adapted and become more resilient.

And bounced back faster and stronger.

And I am confident that as the Omicron peak passes, we will again see the economy surge ahead.

Second, it is now time to draw some clear lines in the sand.

Of course, we will face ongoing challenges, of that we can be certain.

Workforce shortages.

Supply chain disruptions.

And the return of higher inflation.

None of which will disappear overnight.

In tackling these issues, we must also have an eye to the future to ensure we continue to build a stronger and more productive economy.

The Morrison Government has a plan to secure our economic future.

Now is the time to start confidently moving back towards normalised economic settings.

It is time to let businesses get back to business.

Time to get people back safely to our CBDs, back moving freely around their communities.

And it is time for the private sector, who have taken the baton, to continue to run hard.

Not everyone shares our view.

Some prefer to see Australians fearful, while continuing to talk the economy down.

This only feeds anxiety among the public and greater dependence on Government.

It does nothing to support our recovery.

That's what our political opponents want, but I assure you that's not what the Government wants.

Our plan has worked.

Our health and economic outcomes have been among the best in the world.

Our vaccination rates are the eighth highest amongst all OECD countries.

Our mortality rates are the third lowest amongst all OECD countries.

While tragically many Australians have lost their lives to COVID, our health outcomes stand in stark contrast to the United Kingdom and the United States where the death rate has been around 16 times higher.

And this strong health record, along with our record economic support, has allowed the economy to weather each new shock and bounce back stronger each time.

There are more Australians in work today than ever before.

The unemployment rate is on a path to a 50-year low.

And we have outperformed every major advanced economy throughout the pandemic.

This is the basis for my confidence in the Australian people and the Australian economy.

The COVID crisis, response, and strong economic recovery

Our track record shows that we have got the big calls right – protecting lives and livelihoods but also ensuring our fiscal position remains strong.

Our moves to end the emergency fiscal support once the economy could sustain it was not easy, but it was necessary.

We were criticised by some for winding back JobKeeper.

This included the Leader of the Opposition who fear mongering knew no bounds saying JobKeeper should be extended and expanded as it was “the only support that was keeping the economic roof from crashing down.”

But now we know the facts.

Just three months after JobKeeper ended in March 2021, there were almost 120,000 more Australians in work.

The Delta outbreak last year was another significant economic shock leading to the third largest quarterly fall in GDP on record.

But as the health situation improved and restrictions were removed, we wound down our emergency household and business support.

Again, the Labor Party wanted to keep spending, with Shadow Finance spokesperson, Katy Gallagher saying “support should not be pulled.”

The Government stayed the course and consumer and business confidence rebounded.

National spending returned to pre-lockdown levels within two weeks of the lockdowns ending.

And most importantly, the jobs market surged ahead.

Around 366,000 new jobs were created in November alone.

The strongest monthly increase ever recorded, taking employment to a new record high level.

Again over the last few weeks we took a hard decision when we declined to join the states in another round of spending.

Despite the Commonwealth doing the bulk of the heavy lifting during this economic crisis and the economy now on the path to recovery, Labor took the opportunity to attack the Government and keep the spending taps on.

It's clear there is no spending request to which Labor would say no.

The reality is the economy simply cannot be conditioned to the level of unprecedented support that has been required over the last two years.

This level of Government intervention must not become entrenched and become a permanent feature of our system.

Continued support at crisis levels would do more economic harm than good.

The strength of the Australian economy in the face of the biggest economic shock since the Great Depression is an inconvenient truth for Labor.

We should not forget that it was the Shadow Treasurer Jim Chalmers who said six months into the pandemic “*the biggest test for this Government's management of the recession and its aftermath will be what happens to jobs*”.

It was a challenge we readily accepted.

At 4.2 per cent, the unemployment rate is at a 13 year low and well down from the 5.7 per cent when Labor left office.

It's time for those who keep talking the economy down to be called out because those who do so may think they are advancing their political interest but what they are really doing is undermining the national interest.

A strong labour market is a sign of a strong economy

We know that a strong labour market is the best sign of a strong and productive economy.

Today, the share of working age Australians with a job is higher than it has ever been before.

Since we came to Government, there are 1.7 million more people in work - including 1 million women.

And young Australians, in particular, are seeing the benefits of this.

Youth unemployment is now below 10 per cent for the first time in more than a decade.

A stark contrast to the grim situation that faced young Australians after the recessions of the 80s and 90s, where the unemployment rate was 19.1 per cent and 20.1 per cent respectively.

We are also seeing other signs of a healthy and more dynamic labour market.

When the pandemic struck, the rate of job-switching fell sharply.

However, as lockdowns eased and the economy opened up, this trend quickly reversed.

Treasury analysis shows that over 1 million workers started new jobs in the three months to November 2021.

The rate at which people are taking up new jobs is now almost 10 per cent higher than the pre-COVID average.

And the pick-up in job switching has been broad based across all industries.

Unlike some other countries, we are seeing a ‘great reshuffle’ rather than a ‘great resignation’.

There remain 2.9 million fewer Americans employed than before the pandemic, with the participation rate in the United States, United Kingdom, Canada, Japan and Italy all currently below their pre-pandemic levels.

But here in Australia the opposite is true.

The participation rate is close to its record high.

More people want to work and now have the opportunity to do so.

Importantly, a strong labour market doesn’t just create more jobs for individual Australians.

A stronger and more dynamic jobs market leads to increased productivity and wages.

Switching jobs allows workers to move up the job ladder for better pay.

Treasury's latest analysis using Single Touch Payroll data has shown that workers that moved jobs typically experienced pay increases of between 8 and 10 per cent.

They also move to more productive firms, helping those firms grow.

When workers are in high demand, businesses are more likely to invest in capital, making workers more productive and businesses more efficient.

It also leads to better job matching, moving higher skilled workers into higher skilled jobs.

All of this helps to lift productivity.

And as I have said before, the only way to sustainably lift wages is to lift productivity. Something I will say more about later in my remarks.

Omicron and immediate challenges

Having outlined the underlying strength of our economy, I do not wish to downplay the challenges that we all still face.

The pandemic has also taught us that the job is never done.

And like other countries around the world, there are common challenges we still need to overcome.

Workforce shortages

Among the most important challenges we must address is workforce shortages which have been accentuated as a result of Omicron.

We know that there are widespread labour shortages affecting multiple industries.

Working with the Doherty Institute, Treasury estimated that with existing test-trace-isolate requirements, one in 10 workers could be absent from work at the peak of the Omicron wave.

In some sectors and businesses, the rate of absenteeism has been even higher.

Our distribution centres saw absenteeism rates of up to 30 to 40 per cent at their peaks.

While these rates have returned to around 10 to 20 per cent, it has added to existing pressures, caused by closed international borders.

We know that for small businesses, having one or two key workers absent can have a major impact.

That is why the Government has acted quickly.

Working with states and territories, we changed close contact and isolation requirements, so essential workers could continue to work.

We have also been working hard to make sure that Rapid Antigen Tests are available to workers, businesses and schools over the coming weeks and months.

Since the start of 2022, the Government has secured more than 80 million Rapid Antigen Tests for delivery in January and February for use in Aged Care and other high-risk settings.

Our government is also taking action to remove uncertainty around the tax treatment of these tests.

Today, I'm announcing that we will ensure that COVID-19 testing expenses are tax deductible for testing taken to attend a place of work, giving businesses and individuals more clarity and assurance.

We will also ensure that fringe benefits tax will not be incurred by employers where COVID-19 tests are provided to employees for this purpose.

And the steady opening of our international border will help to further relieve workforce pressures.

Preliminary data shows that there were around 265,000 arrivals in January, compared to just 15,700 before borders re-opened in October.

Net overseas migration is currently forecast to recover to pre-COVID trends of 235,000 from 2024-25.

But we are not just opening the border.

In all, we have made more than 70 changes to visa settings to directly respond to COVID-19 and support businesses and the economy in a targeted way.

This has included lifting work restrictions on hours for international students, introducing a new agriculture visa and doubling the Pacific Australian Labour Mobility scheme.

We have also leveraged the pandemic to create a stronger and more productive workforce.

Building a future pipeline of skilled workers, with over 220,000 trade apprentices in training, the highest level since records began in 1963.

This is in addition to more than 450,000 free and low-fee training courses for job seekers and young people through our $2 billion JobTrainer Fund.

Our Personal Income Tax Plan which has delivered the largest tax cuts in more than 20 years is encouraging workforce participation, which has risen to record levels under our Government.

Record investments in the Child Care Subsidy which has provided 250,000 families, particularly women, the choice to take on extra work.

We have also increased the Jobseeker income free area and the Age Pension Work Bonus to remove disincentives to work.

Together, these actions are helping to relieve some of the workforce pressures we face.

With the Omicron wave looking to have peaked in some of our largest states, cases have been declining in NSW, VIC, SA and the ACT.

The share of hospitalisations caused by COVID-19 is stabilising.

This is all contributing to absenteeism rates declining.

But we must continue to respond to workforce challenges if we are to fully realise the opportunities that are ahead of us.

This is why continuing to address these challenges will be an important focus of the Budget.

Supply chain disruptions

At the same time many Australian businesses have also faced global supply chain disruptions.

This has been brought about by a sharp increase in the demand for goods globally, such as electronics and household furnishings.

Demand for goods in the United States is now around 15 per cent above its pre-COVID level.

That's an increase in demand of nearly $750 billion in the US alone.

At the same time there have been disruptions in key manufacturing processes.

We've seen a shortage of semi-conductors, which has impacted the new car industry, electronic equipment, and home appliances.

The strong global demand for goods along with stranded containers and port blockages has seen shipping prices now up to six times higher than pre-COVID rates.

And delivery times between China and the US and Europe have roughly doubled.

While many of these challenges are global, and stem directly from the pandemic, the government is taking strong action to keep critical goods and services flowing, where it is needed most.

We have unblocked Rapid Antigen Test supply issues at airports.

We have also responded to the impacts of the significant flooding in South Australia, which closed major rail lines and put the Stuart Highway under water.

We are currently working with industry to clear water from the road and rail lines, provide road and sea freight alternatives, and have used the Australian Defence Force to fly in 20 tonnes of essential food and supplies to Coober Pedy.

And over the summer, the Government worked alongside industry to secure Australia's supply of diesel emission fluid – AdBlue – and keep the economy moving.

While these global supply pressures will persist for some time, they are expected to unwind.

Demand will eventually rebalance back from goods towards services.

But there are still things we can do to make our supply chains more efficient for the longer term.

We know that efficiency at Australian ports was already behind global peers prior to the pandemic.

A comparison of in-port time performance at 351 container ports worldwide by the World Bank found that 4 of the 5 Australian major ports considered were in the bottom quartile.

In 2019, the ACCC found that the median in-port time for container ships visiting Australia was 1.2 days, which is three times longer than Japan, twice as long as China, and 50 per cent longer than Singapore and New Zealand.

That is why we commissioned an Inquiry into Australia's maritime logistics systems, which will help us understand longer-term barriers and solutions to more efficient transport systems.

Inflation and cost of living

Finally, the combination of all these factors has put upward pressure on prices here and overseas.

Energy price rises, particularly for fuels, have been one of the largest contributors to the rise in inflation in many countries around the world.

And we are seeing supply chain pressures show up in rising prices for big-ticket household items and food.

Inflation has picked up particularly sharply in the US.

At 7.0 per cent over the year, US inflation is running at its highest rate in nearly four decades.

It has also risen 5.4 per cent in the United Kingdom and 5.9 per cent in New Zealand

Importantly, inflationary pressures have not been as acute in Australia.

The Consumer Price Index increased by 3.5 per cent through the year to December.

This is stronger inflation than we've been used to, but much less than in many other countries.

One of the key drivers for this, is the fact that the typical Australian household's electricity bill has gotten cheaper over recent years, not more expensive.

This comes on the back of the Government's ongoing action to lower energy costs, putting money back into the pockets of hard-working Australians.

Nevertheless, reflecting global trends, price pressures have broadened in Australia, and this will likely persist until consumption patterns normalise and supply bottlenecks unwind.

Interest rates globally have started to rise in anticipation of an earlier than expected normalisation of monetary policy.

But even when interest rates eventually rise, they will remain at historically low levels for some time.

This means borrowing costs will remain low, supporting investment and the recovery.

Nevertheless, we know that during this transition, families will be exposed to higher cost of living pressures.

The best thing we can do as a government to support them is to have a strong economy that creates jobs and higher incomes.

And we are doing this by making sure Australians pay less, not more in tax.

Lower taxes mean that families get to keep more of what they earn.

After lodging their tax return this year, a nurse on $60,000 per year will have paid $6,480 less in tax since 2018-19 as a result of our personal income tax plan.

Inflation, workforce shortages and supply chain disruptions are all serious challenges, but none are insurmountable.

As we have done throughout the pandemic, we will continue to work closely with businesses to respond to these pressures.

Securing long-run growth

Finally, as we emerge from this pandemic, we should be proud of what we have all achieved.

A strong and vibrant economy.

A record number of Australians in work and full employment now in sight.

That is why I am confident that as the Omicron peak passes, we will again see the economy surge ahead.

But we must also recognise that COVID has been an important catalyst for change.

It has accelerated our uptake of digital technology.

We've embraced working from home and have been quick to adopt new business practices.

Online sales have roughly doubled as a share of total retail sales since 2019 as thousands of businesses migrate to digital platforms and consumers embrace the digital age.

Australian businesses and households have shown remarkable flexibility and a spirit of innovation.

The challenge now for business is to carry on in this spirit.

To lock in these gains and ensure the long-term success of the economy, we must have an eye on the future.

We must continue to invest in our people, in new technology and find better and more innovative ways to do business.

It is well documented that productivity growth across the world including in Australia has been running below its long run average.

That is why the Government has been working hard to lock in a wide range of productivity-enhancing reforms, including:

- making the biggest changes to our insolvency system in 30 years
- working with the states to cut red tape and create a uniform scheme for automatic mutual recognition of occupational licences, will directly benefit over 168,000 people each year.
- introducing a new 'patent box' to encourage the commercialisation of innovation in the medical and biotechnology sector.

- investing $2.2 billion in a University Research Commercialisation Action Plan places to drive our universities and businesses to work hand-in-glove in support of high potential projects.
- enabling the shift to digital through our Digital Economy Strategy
- undertaking record investments in infrastructure through a rolling ten-year $100 billion pipeline

But there is always more to do.

And there is no better time than now to act.

With COVID bringing about fundamental changes across the economy, it provides a unique opportunity to assess Australia's productivity challenges and opportunities.

That is why, today I am announcing that I have asked the Productivity Commission to commence its second five yearly productivity review.

With a post-pandemic economy as the backdrop, the PC is being tasked with developing an actionable roadmap to assist governments to make productivity enhancing reforms.

It will identify priority sectors for reform, including data and digital innovation and workforce skills.

The review will be completed over the next 12 months.

And I know that the business sector will actively contribute to this, providing their own insights and submissions around what they see as important to lift productivity.

Conclusion

Ladies and gentlemen, as I said in my opening remarks, COVID-19 has tested us all.

And it will continue to do so. We are not yet out of the woods.

But we have good reasons to be optimistic about the future.

We have the fundamentals in place for a strong and sustained economic recovery.

With more jobs, more investment and higher productivity. Now is not the time to be fearful.

We must stick to our economic plan that has underpinned a world leading economic recovery.

Lower taxes and cutting red tape. Investing in infrastructure and skills. Delivering affordable and reliable energy.

Making Australia a top ten data and digital economy by end of the decade.

And securing our sovereign manufacturing capability, unlocking a new generation of high-wage, high-skill, high tech jobs.

It is simply irresponsible to be talking down the Australian economy. It is both resilient and strong.

And Australians have every reason to be confident about their economic future.

Thank you.