

Key points

- **The polls and betting markets suggest that the ALP is likely to win the 2022 election;**
- **The performance of independent candidates will be watched. A trend of voting towards non-major parties has been happening for some time;**
- **Neither major party will likely control the Senate;**
- **The next government will face a number of significant policy challenges.**

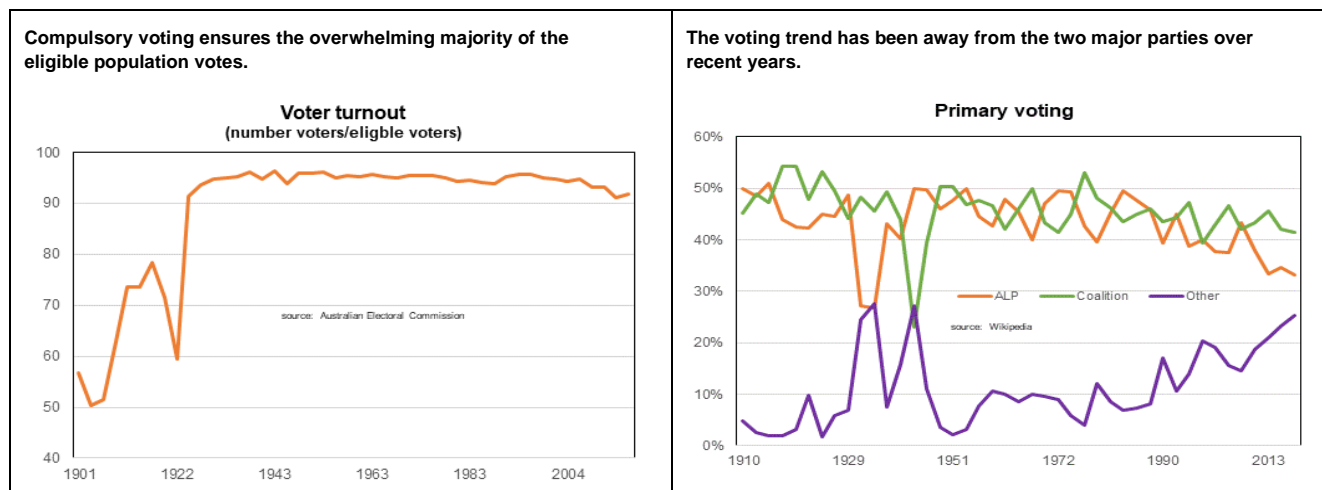
The political structure

Every three years' Australia gets to choose who will be Prime Minister. By international standards this is an unusually short time. According to Heath Pickering from the University of Melbourne, 90% of countries that have a similar parliament structure as Australia have elections every 4 or 5 years for their lower house (with the majority at 5 years). Only Australia, Mexico and the Philippines have a 3-year term. All Australian state and territory lower houses now hold their elections every four years (with a fixed term).

While we are not unique, Australia is in the minority of countries that have compulsory voting. Typically it has resulted in around 95% of the eligible population voting although there has been a (modest) decline in that proportion over the past decade. Voting patterns have changed over time with the proportion of votes for the two major parties declining over the past thirty years (particularly for the ALP). This has resulted in only a modest decline in the number of seats for the two major parties in the lower house where full preferential voting (voters' must express a preference towards every candidate) is used. In the Senate where voting is based upon proportional representation (seats are allocated on the proportion of votes received for each candidate) there has been a growing proportion of senators not from the two major parties.

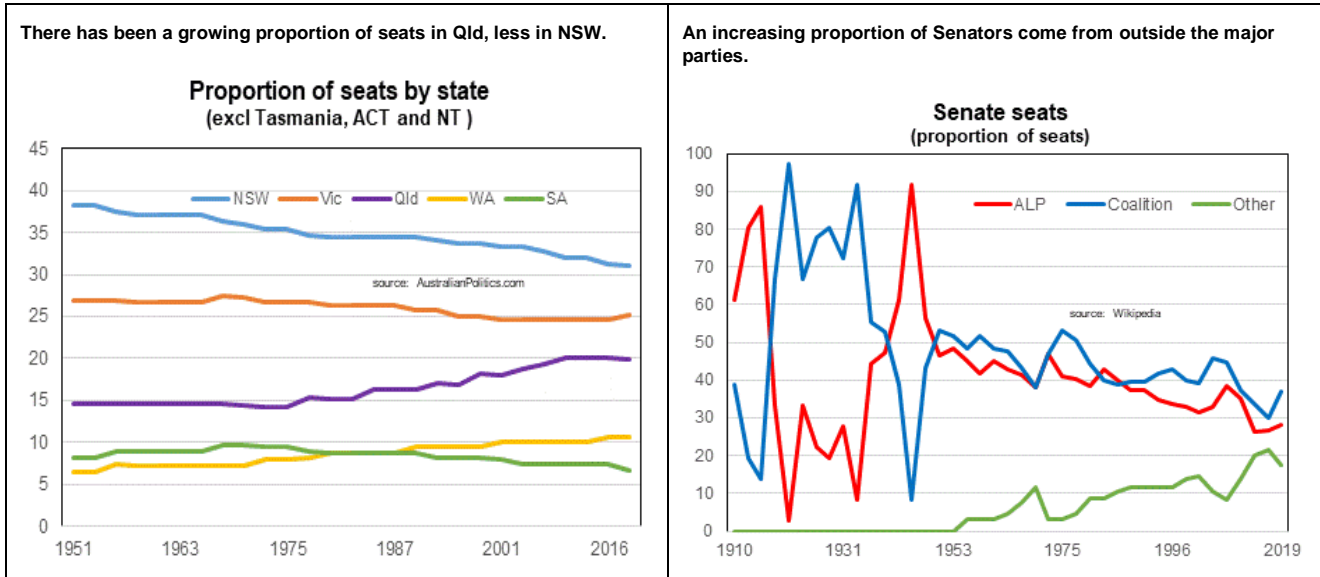
There are currently 151 House of Representatives seats, with 76 seats needed to win an election. Seats are allocated based on the relative population of each state. Each seat must broadly have the same number of voters (within a 10% margin). The exception is Tasmania as the constitution specifies that each state must have at least five seats (this does not apply to the ACT and NT as they were territories when the legislation was enacted). NSW has the highest proportion of seats of all jurisdictions although that proportion has declined over the past six decades reflecting relatively stronger population growth in other states. The proportion of seats has also declined over time in Victoria and South Australia, increasing in Western Australia and (particularly) Queensland.

There are twelve senators for each state, with two for each of the territories. So while the three most populous states (NSW, Victoria and Queensland) have a bit over three quarters of total seats in the lower house this advantage is neutralised in the Senate (a touch under 50%). In that respect the Australian electoral system is similar to other large democratic countries (such as the US) where the upper house was explicitly structured to favour the smaller states.



ECONOMIC UPDATE

PETER MUNCKTON – CHIEF ECONOMIST
WEEK ENDING 20TH MAY 2022

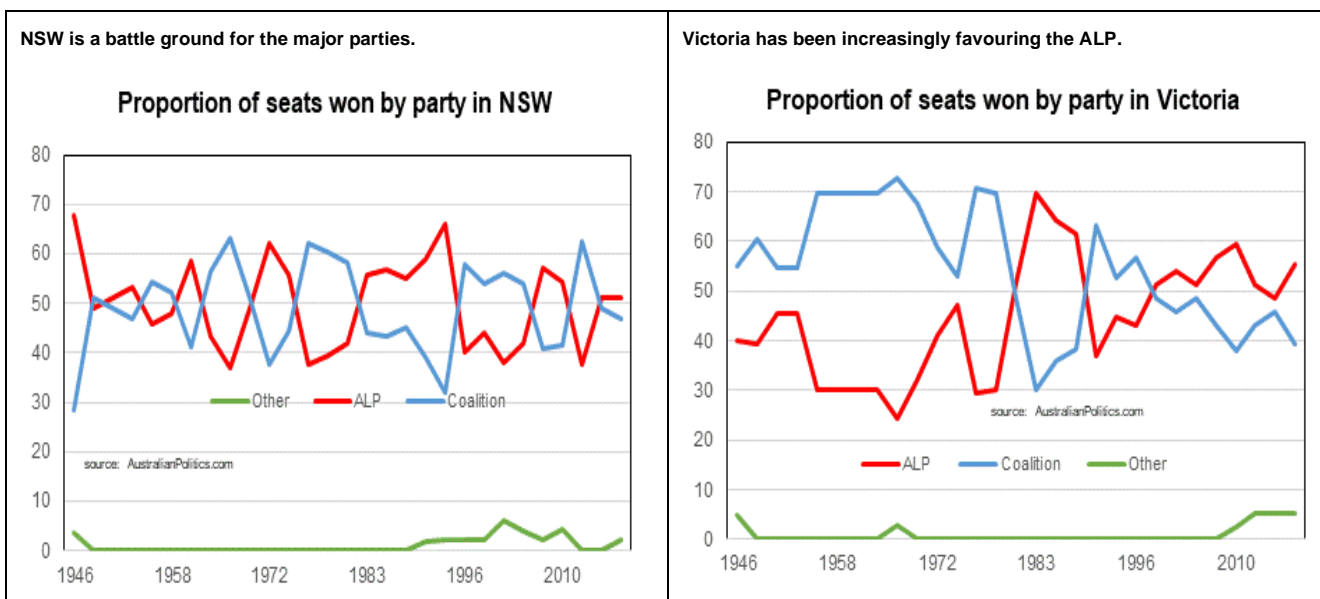


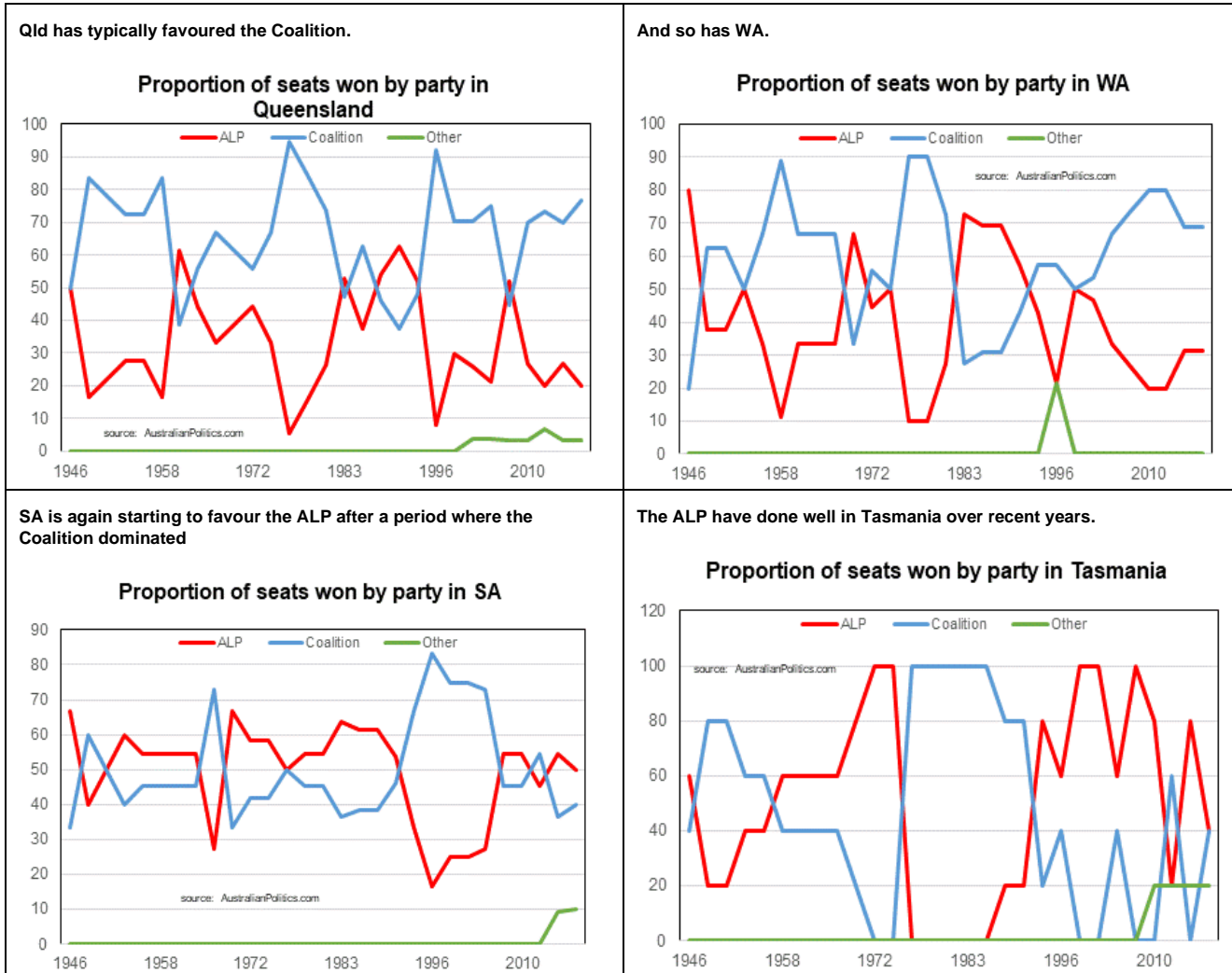
History of voting by state

In the Lower House, the Coalition historically has tended to win the majority of seats in Queensland and WA. That was also the case in Victoria up to 1980. But since then Victoria has tended to favour Labour (apart from the 1990s). South Australia has also typically favoured the ALP although it did tilt towards the Coalition during the Howard Government years. Tasmania has tended to swing between parties, with the ALP currently favoured. Over time, NSW has not favoured either of the two major parties.

The Australian Electoral Commission classifies seats as marginal (less than 6% margin), fairly safe (6-10%) and safe (over 10% margin). Unsurprisingly the states with the largest number of seats are also the states with the largest number of marginal seats.

The categorisation of seats can change very quickly. For example, in the 2013 election the Coalition won over 60% of the primary vote in Warringah (the seat of former Prime Minister, Tony Abbott), a record high for that electorate. Six years later the Coalition vote was not only under 50% but was lower than that of the Independent candidate (Zali Steggall).



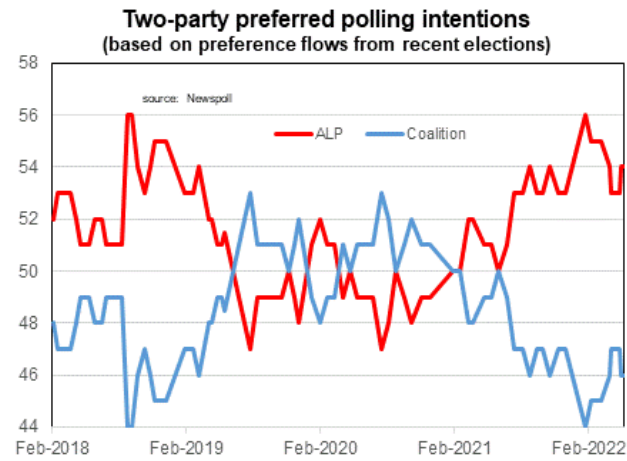


Who is likely to win

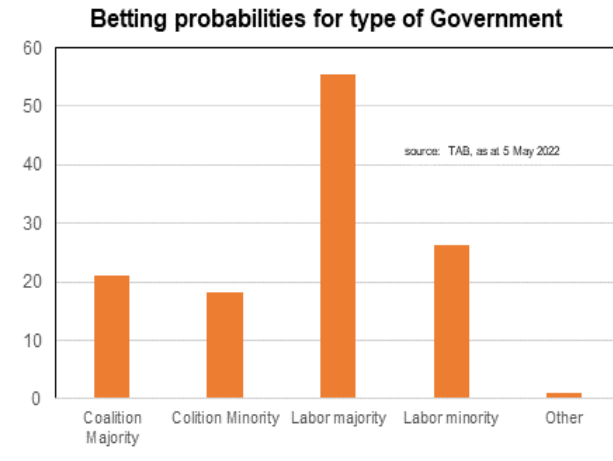
At the time of writing, betting markets strongly favour a majority victory by the ALP. This is in line with the polling numbers that have consistently pointed to a clear majority of voters favouring the ALP on a two-party preferred basis.

Surprisingly, the state of the economy has historically had a mixed impact on election results. The ALP won re-election in 1990 and 1993 despite being in Government during a deep recession. The Coalition lost in 2007 when the unemployment rate was low and disposable income growth was high (although interest rates were rising). The ALP won re-election in 1974 just as the oil price shock was hitting inflation (they lost Government the following year). The Coalition remained in Government from 1975-83 despite ongoing high inflation and a rising unemployment rate.

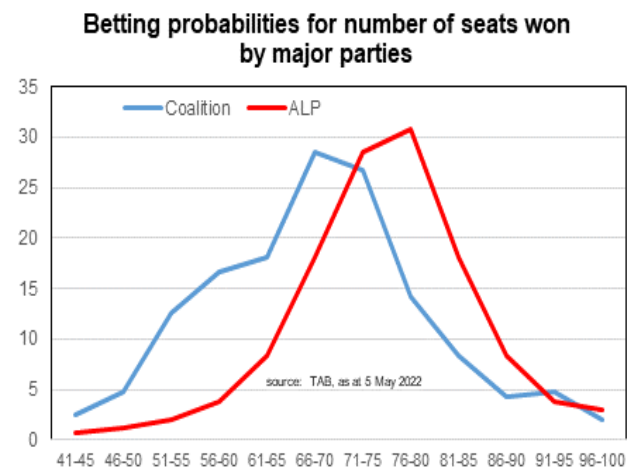
The polls favour the ALP.



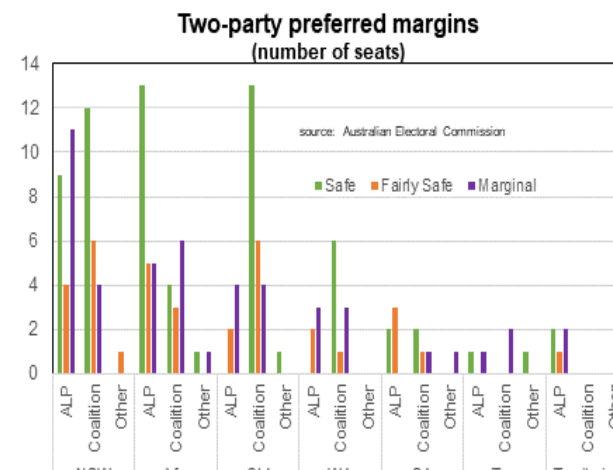
And so does the betting markets.



The betting markets suggest the ALP should win a clear majority of seats in their own right.



Unsurprisingly, most of the marginal seats are in the three largest states.



Issues for the next Government

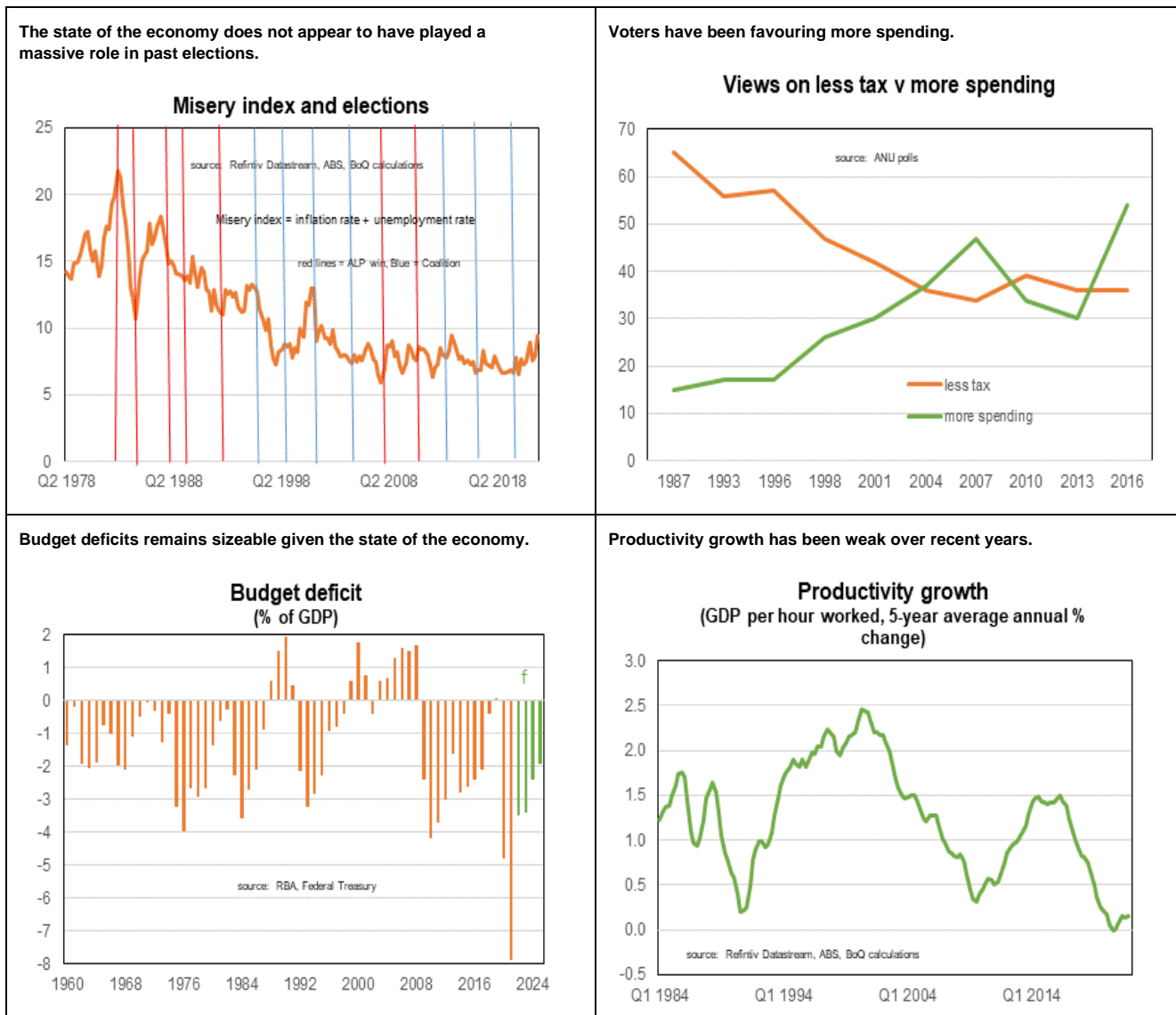
The election campaign has highlighted some policy differences between the two major parties (climate change, minimum wage, housing affordability). But whoever wins the election faces a number of big policy issues. The good news is that the COVID crisis looks to be coming to an end allowing the next Government to (hopefully) address some of the longer-term issues.

The next Government will be confronted with rising demands for greater government spending across a variety of areas, including health, aged care (both due to an aging population), defence and education. By global standards the taxation system is heavily biased towards income taxes (although neither party have suggested any significant tax reform). The RBA is forecasting inflation to remain above its 2-3% inflation target band until 2024, limiting the degree to which fiscal policy can be further expanded.

The theme of increasing demand for governments to spend money but reluctance to increase taxes has led to the development of structural budget deficits. Debt (as a proportion of GDP) is currently high by Australian historical standards (although not by peer country standards). The Australian fiscal position arguably needs to be stronger than global peers because of the smaller size of our domestic capital market and the historic need to import funding.

Productivity growth that has been weak over the past decade. At least part of that is for cyclical reasons (end of the mining boom, ongoing fallout from the GFC) that resulted in an extended period of low business capex spending. This at least has changed as firms have increased investment due to robust demand, high capacity usage, strong profit growth and government incentives. The pandemic also highlighted the importance of having an online presence leading to increased spending on digitisation. Mainly these are decisions for individual businesses. Governments though have a role to play in boosting productivity growth by setting the right incentives through regulation and taxation, as well as ensuring there is high quality infrastructure, health and education.

Finally, it should be recognized that it is unlikely that either of the two major parties will control the Senate. This could limit any major change the next Government may wish to implement.



Former Prime Minister, Paul Keating, once said, “When you change the government you change the country.” An aging population, greater society demand for government spending, rising geo-political tensions, climate change and evolving consumer behaviour means the country is already changing. It will be interesting to see what policies the next Government implements to handle these changes.

We live in interesting times.

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Regards

Peter Munckton
Chief Economist
Bank of Queensland