From: LIU, Betty
Sent: Friday, 14 August 2020 9:36 AM
To: GARDINER, Paul
Subject: Non-mining investment - monthly note [SEC=OFFICIAL]

Hi Paul,

Thank you for your question on fast-tracked projects in the non-mining investment section of the monthly note. I just realised that it's a public holiday in QLD today so I thought I'd email you the responses instead. I'm happy to adjust the wording of the paragraph on Monday if needs be.

Your question: These are state infrastructure projects pre-COVID which were due to wind down but govts have instead pulled committed projects forward suggesting a big drop at some point? Unless additional projects are added? When is the 'cliff'?

From me: Liaison suggests fast-tracked projects are a combination of projects that have been considered before, may have otherwise been deferred, or are brought forward from later in the pipeline. It's difficult to know when the cliff will occur because it depends on state govt. finances/spending. In addition, some of the transport infrastructure projects are multi-year projects involving complex builds so I suspect it would be harder to bring forward these projects and the 'cliff' would be further the track.

From Matt L: Thanks Betty, I agree. Paul, I think this is a really important question, so thanks for raising it. At this point, I am not willing to speculate on the states' appetite to fund public infrastructure in the medium- and long-run.

Please feel free to reach out if you have more questions.

Have a good (long) weekend!

Cheers
Betty

Betty Liu | Economist | Regional and Industry Analysis
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
w: www.rba.gov.au

From: GADSBY, Paula
Sent: Tuesday, 18 August 2020 6:22 PM
To: JONES, Bradley
Cc: LAI, Sharon; LARKIN, Matt; WALKER, Aaron
Subject: RE: Note EA: Liaison on Current Conditions - August 2020 [SEC=OFFICIAL]

Hi Brad,

This graph was updated yesterday morning so I believe it doesn't include the Tasmania announcement.

The graph is capturing all government announcements since mid March that are in response to the pandemic which is new spending (or as you said over-and-above what was previously expected). If the announcement was spending being brought forward from the budget out years it is not included in these figures. Some of this spending could of actually been done in the past 6 months such as the more immediate measures (e.g frontline health services, direct cash grants and payroll tax waivers), while some other announced measures will occur over FY2021 (such as infrastructure upgrades and the freezing of household fees and charges). So not really a forecast that demonstrates the whole picture, we will have to wait for state budgets to be released to get the full picture on spending going forward.

Regards,
Paula

From: JONES, Bradley
Sent: Tuesday, 18 August 2020 3:31 PM
To: GADSBY, Paula
Cc: LAI, Sharon
Subject: RE: Note EA: Liaison on Current Conditions - August 2020 [SEC=OFFICIAL]

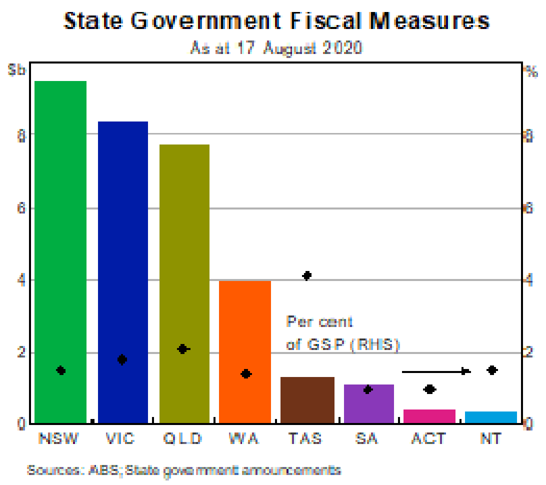
I just re-read the text. So am I right in assuming these measures capture spending that has actually been done in the past 6 mths or so (not forecasts of future commitments), and spending that is over-and-above what was previously expected (expressed as a share of annual GSP)?

From: JONES, Bradley
Sent: Tuesday, 18 August 2020 5:26 PM
To: GADSBY, Paula
Cc: LAI, Sharon
Subject: RE: Note EA: Liaison on Current Conditions - August 2020 [SEC=OFFICIAL]

Many thanks Paula

Just for my background, do the figures below include those just announced by Tasmania? (Sharon and I were chatting about these today). Also, by 'fiscal measures', do we mean fiscal deficit or fiscal spending and over what time period?

Thanks



From: GADSBY, Paula
Sent: Tuesday, 18 August 2020 8:46 AM
To: Notes policy groups
Subject: Note EA: Liaison on Current Conditions - August 2020

- The total fiscal stimulus announced (and costed) so far by state and territory governments totals $33 billion (1.7 per cent of GDP). Over two thirds of the $2bn in new spending announced over the past month was by the Western Australian Government as part of its 'Recovery Plan', mainly targeted at infrastructure upgrades.

Paula Gadsby | Economist | Western Australian Office
RESERVE BANK OF AUSTRALIA |Level 11, London House, 216 St Georges Terrace, Perth WA 6000
w: www.rba.gov.au

AN UPDATE ON LIAISON MESSAGES: AUGUST 2020

- The total fiscal stimulus announced (and costed) so far by state and territory governments totals $33 billion (1.7 per cent of GDP). Over two thirds of the $2bn in new spending announced over the past month was by the Western Australian Government as part of its 'Recovery Plan', mainly targeted at infrastructure upgrades.

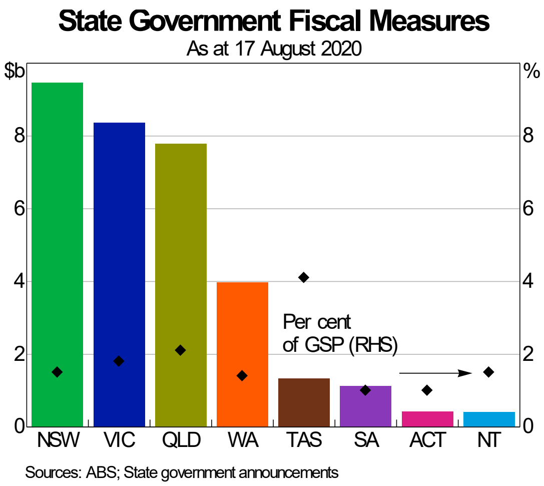
New information from liaison

Non-resource investment

- Public investment in infrastructure has continued, although there have been reports of delays to transport projects, both for projects under construction and projects in the tender process. The elevated level of infrastructure investment is expected to be largely maintained as projects are fast-tracked, instead of contributing to growth in GDP. Some contacts have noted that larger projects can be difficult to accelerate because of their complexity.

State government responses to COVID-19

- As at 17 August 2020, the total fiscal stimulus announced (and costed) by state and territory governments totals $33 billion (equivalent to 1.7 per cent of GDP). Spending measures have been directed towards government expenditure (50 per cent) and businesses (45 per cent), rather than households (5 per cent).
- Over two thirds of the $2bn in new spending announced over the past month was by the Western Australian Government as part of its 'Recovery Plan', mainly targeted at infrastructure upgrades.



Regional and Industry Analysis
August 2020

From: COOMBS, Merylin
Sent: Tuesday, 18 August 2020 6:27 PM
To: LARKIN, Matt
Cc: VAN DER MERWE, Michelle
Subject: RE: Shovel ready note [SEC=OFFICIAL]

Thanks Matt
I made one comment in the note, which shouldn't take long to consider.
I don't need to see it again – it's a nicely set out/structured note.
Thanks – I'm sure this aspect will get some good discussion if it comes up on Thursday or at a later date – people love talking about these sort of projects.
Merylin

From: LIU, Betty
Sent: Tuesday, 18 August 2020 3:37 PM
To: LARKIN, Matt COOMBS, Merylin
Cc: VAN DER MERWE, Michelle
Subject: RE: Shovel ready note [SEC=OFFICIAL]

Thanks for following up Matt – I think the point about relative size (15 priority projects vs projects under the three programs) comes across in the note. I asked mainly because the sheer size of the 15 priority projects are made me question whether the pipeline of work yet to be done (Graph 2) would look significantly different if they were included.

Agreed on keeping an eye out for M&E investment-related liaisons.

Nothing more from me, congrats on completing the note and I look forward to your presentation at FACM.

Cheers
Betty

Betty Liu | Economist | Regional and Industry Analysis
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From: LARKIN, Matt
Sent: Tuesday, 18 August 2020 3:16 PM
To: LIU, Betty ; COOMBS, Merylin
Cc: VAN DER MERWE, Michelle
Subject: RE: Shovel ready note [SEC=OFFICIAL]

Thanks for this Betty,

Betty, your takeaway lines up with what we are trying to convey, so that is positive ☺.

Betty and I had a quick chat about the Victoria situation. While essential and critical construction is exempt from the stronger activity restrictions, I am not sure/convinced that these projects are categorised as essential. So, I think it is still appropriate to flag the Victorian situation as a risk to the projected profile.

The intention of discussion these priority projects is to draw attention to difference in scale – i.e. the two priority projects we discuss are each larger in value than the combination of all projects announced under the three programs that are the focus of the note. Do you think this comes across? For our interest, the 15 priority projects are likely to be included in the grey bars of Graph 2 if they had commence construction prior to the March quarter

ABS release and the end user was the public. For example, the Deloitte Investment Monitor had the bulk of the BHP Billiton's Olympic Dam mine extension in their March release, but this is likely private investment and not in the grey bars. In total, Deloitte estimate the 15 priority projects to be worth around $72b.

Thanks for flagging the labour-intensive and M&E points. Your question about additional demand for things like big trucks is interesting. At this point, it seems that the projects will support the near term pipeline rather than add much additional (unexpected) spending. That said, truck need replacing, so maybe we can keep an eye this question on in liaison moving forward? Betty, do you have any additional thoughts on the matter?

Regards
Matt

From: LIU, Betty
Sent: Tuesday, 18 August 2020 12:19 PM
To: LARKIN, Matt ; COOMBS, Merylin
Cc: VAN DER MERWE, Michelle
Subject: RE: Shovel ready note [SEC=OFFICIAL]

Hi Matt,

Thank you for sending this through, it's an interesting note! I found it helpful that you drew out the differences between shovel-ready projects, fast tracked projects and the 15 priority projects, given the general confusion around terminology. My main takeaway was that the shovel ready/road safety/LRCI projects are quite small in the grand scheme of things – which is probably why by definition they are 'shovel ready' – and it goes to show the elevated level of infrastructure work yet to be done.

Regarding the VIC situation & the timing of infrastructure spending – civil construction is exempt from the 25 per cent capacity restriction so the extent of delays may be less relative to other construction projects. I acknowledge that there will be delays associated with social-distancing/other COVID-19 safety measures irrespective.

Also question – are the 15 priority projects also in the pipeline (and therefore captured by the grey bars in Graph 2)? If not, do we have a sense of their relative size?

My only other initial suggestion was on the labour-intensive point but you've more than covered it. It also prompts the question of whether instead of boosting demand for labour, these projects will boost M&E investment instead (e.g. demand for heavy duty rigid trucks).

Cheers
Betty

Betty Liu | Economist | Regional and Industry Analysis
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

From: LARKIN, Matt
Sent: Tuesday, 18 August 2020 11:20 AM
To: LIU, Betty ; COOMBS, Merylin
Cc: VAN DER MERWE, Michelle
Subject: Shovel ready note [SEC=OFFICIAL]

Hi Betty and Merylin

Betty, thanks again for agreeing to have a read of the shovel ready note. You can find the document on Sharepoint:

Merylin, we thought that you may also like to have a look at the document before it is circulated.

Of course, any thoughts and comments are most welcome ☺.

Regards
Matt

Matthew Larkin | Economist | Regional and Industry Analysis
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

Shovel Ready presentation

- If it was to come up, would we be able to say why the proportion varies?
  - Looks to be a combination of the individual states ability to fund projects and the availability of projects that could be funded quickly.

- Do we know how the states are funding their portion?
  - offer up some initial bites if the question were to come up – just thinking of the broader interest among senior folk on this aspect and e.g. whether state governments might consider issuing a bond to finance their programs.

Betty and I had a quick chat about the Victoria situation. While essential and critical construction is exempt from the stronger activity restrictions, I am not sure/convinced that these projects are categorised as essential. So, I think it is still appropriate to flag the Victorian situation as a risk to the projected profile.

The intention of discussion these priority projects is to draw attention to difference in scale – i.e. the two priority projects we discuss are each larger in value than the combination of all projects announced under the three programs that are the focus of the note. Do you think this comes across? For our interest, the 15 priority projects are likely to be included in the grey bars of Graph 2 if they had commence construction prior to the March quarter ABS release and the end user was the public. For example, the Deloitte Investment Monitor had the bulk of the BHP Billiton's Olympic Dam mine extension in their March release, but this is likely private investment and not in the grey bars. In total, Deloitte estimate the 15 priority projects to be worth around $72b.

Thanks for flagging the labour-intensive and M&E points. Your question about additional demand for things like big trucks is interesting. At this point, it seems that the projects will support the near term pipeline rather than add much additional (unexpected) spending. That said, truck need replacing, so maybe we can keep an eye this question on in liaison moving forward? Betty, do you have any additional thoughts on the matter?

SHOVEL READY, SET, GO?[1]

Federal and state governments have collectively announced around $3 billion (0.15 per cent of annual GDP) under three programs that fund smaller public road and infrastructure projects that can commence quickly, support jobs and stimulate the economy. Most of the spending should take place in 2020/21, though stricter constraints on construction site activity and slower economic activity in Victoria could result in project delays that may push out part of the projected spending profile. While the spending represents an intention to support infrastructure activity in the near term, liaison contacts and industry experts are sceptical that shovel ready projects are as new as governments and the media have portrayed them.

Introduction

Following the outbreak of COVID-19, the federal and state governments collectively announced around $3 billion (0.15 per cent of annual GDP) of infrastructure investment spending toward projects that could commence quickly, support jobs and stimulate the economy. The announced spending funds projects that fall under three broad programs – shovel ready, road safety, local roads and community infrastructure (LRCI program). The programs largely help to bring forward the commencement of projects already in the planning process and, in some cases, provide new or additional spending. The vast majority of spending is associated with smaller public road projects that should commence construction in mid to late 2020 and finish by early 2023, with governments allocating the bulk of funding to 2020/21. HANA incorporated these spending announcements into the August Statement forecasts for public investment, although once the spending was allocated across quarters, its impact on growth was relatively small.

This note draws on recent government announcements to outline the level and types of infrastructure spending, the contributions from the federal and state governments and the likely timing of activity. The note also draws on liaison information to understand the construction sector's capacity to deliver these projects and the perceived strengths and limitations of the announced spending according to the Bank's liaison contacts.

Infrastructure investment response to COVID-19

Graph 1 breaks down the announced spending across the three programs and by state and territory – shovel ready ($1.6 billion), road safety ($860 million), and the LRCI program ($500 million). The federal government has committed around two-thirds of the total spending amount, but the proportion of the federal contribution varies between states. While the federal government will contribute a larger portion of funding to the announced programs, state governments have recently highlighted in a number of forums that they already had significant pipelines of infrastructure work underway prior to the virus outbreak, especially in the east coast states. Moreover, relative to the existing pipeline of public infrastructure spending, the total spending associated with the three programs is relatively small (Graph 2).

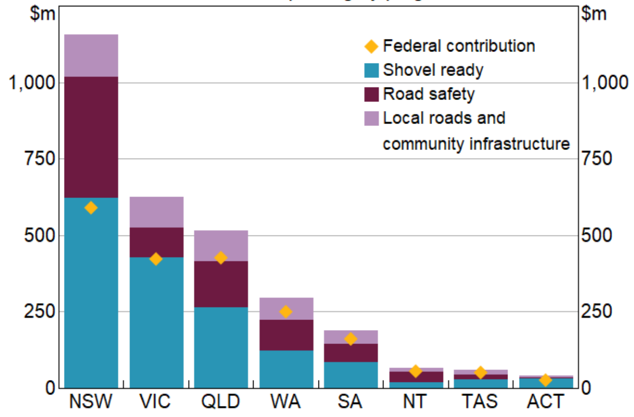
The first two programs – shovel ready and road safety – reflect joint initiatives by the federal and state governments to ensure the delivery of infrastructure pipelines, and to support additional, smaller, short-term projects. The federal government has funded their portion through their existing 10-year, $100 billion, Infrastructure Investment Program. The LRCI program provides $500 million of federal funding for new infrastructure projects in local government areas (LGAs) and requires LGAs to complete projects in 2020/21.[2]

In addition to the three programs, some states have implemented measures to speed up approval processing times for select projects that evaluators can assess quickly, support jobs and can deliver public benefits in the short to medium term. While the 'fast-tracked' projects are not the focus of this note, we provide a high-level summary of some state policies below.

1 I would like to thank Tomas Cokis, Lachlan Dynan, Betty Liu and Michelle van der Merwe for their help and insights with this project.

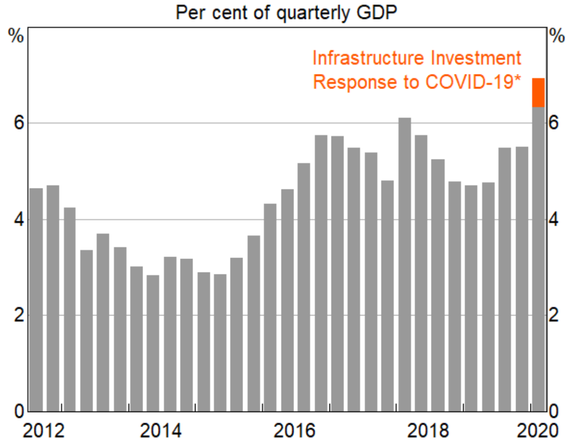
2 Table 1 highlights some of the larger announced projects by program and state.

Graph 1
Infrastructure Investment Response to COVID-19
Announced spending by program



Sources: DITRDC; RBA

Graph 2
Public Infrastructure Work Yet-to-be Done
Per cent of quarterly GDP



* Smaller projects announced by federal and state governments in response to COVID-19 to be completed 2020 to 2023; this is indicative only, as most projects have not yet commenced

Sources: ABS; DITRDC; RBA

Shovel ready projects

Federal and state governments have allocated around $1.6 billion to ‘shovel ready’ projects that can commence construction from the second half of 2020 (federal: $980 million, states: $623 million). The spending aims to shore up the near term infrastructure pipeline with various road and rail infrastructure projects across the country. The projects include the sealing and widening of roads, bridge and tunnel works. The average estimated project duration is one year, though some larger projects, mostly in NSW and Victoria, may take two or more years to complete.

Importantly, the individual shovel ready projects are much smaller than many of the larger, longer-term, infrastructure projects, like the 15 priority projects Prime Minister Morrison discussed at the CEDA State of the Nation in June 2020. Since late 2019, the priority projects on the Prime Minister’s list, such as the Marinus interconnector link between Tasmania and Victoria ($3.5 billion) and the Inland Rail from Melbourne to Brisbane ($10 billion), have benefitted from expedited assessment and approval processes.

Targeted road safety works

Under the targeted road safety works program, state and territory roads will benefit from an additional $860 million of funding (federal: $500 million, states: $360 million) to improve road user safety. Each project should take around 12 months to complete and start around September 2020. Examples of the projects include installing safety barriers, rumble strips and automated signal systems.

Local roads and community infrastructure (LRCI)

The federal government’s $500 million LRCI program supports local councils to deliver priority local road and community infrastructure projects across Australia. Councils need to demonstrate that projects are additional to their pre COVID-19 work program for 2020/21 and should finish by 30 June 2021. Eligible local road projects could include traffic signs, traffic control equipment, street lighting, and sidewalk maintenance. Eligible community infrastructure projects could include installing Closed Circuit TV (CCTV), bicycle and walking paths, improvements to community facilities, noise and vibration mitigation measures, and off-road car parks. (See LRCI program for distribution of funding across local government areas.)

Fast-tracked approvals for buildings and infrastructure projects at the state level

Various state governments have implemented measures to fast track selected projects since the onset of COVID-19, with the aim of reducing approval times without compromising on standards. Most projects appear to be public infrastructure and non-residential building investment in sectors such as transport, health, education, and community development. For example, between late April and mid August NSW has announced 90 projects that have benefitted from the expedited process, ACT also have a broadly similar program and Victoria has fast-tracked some non-residential commercial property projects. Although, information from liaison suggests that most of the ‘fast-tracked’ Victorian commercial property projects had already received their permits when the government announce that their approval had been fast tracked in late May 2020.

Timing of investment spending

As the three programs provide expectations for project delivery, we can infer a rough timeline for when the infrastructure spending may occur and build up an aggregated investment spending profile. To arrive at the profile, we assume that spending on each shovel ready and road safety project takes one quarter to ramp up, after which spending occurs equally across its outlined delivery timeline, before winding down in the final quarter as it approaches completion. As the projects are typically small in scale, have relatively short timelines and are predominantly road & rail upgrades, we feel comfortable that these are reasonable assumptions to make and are consistent with typical spending profiles associated with road and rail upgrades.

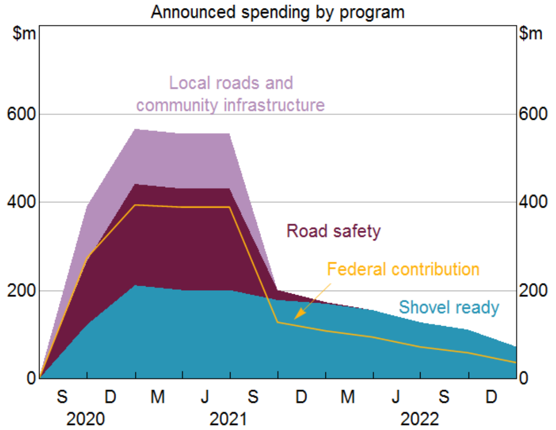
For the LCRI projects, the only publicly available information at this stage is a breakdown of the funding allocation by local government area. For simplicity, we assume that total spending associated with the program follows a similar distribution to the assumptions made for the shovel ready and road safety projects.

The aggregated investment profile suggests that the bulk of the announced spending will occur in 2020/21 (Graph 3 and Graph 4), mostly driven by the smaller projects in the LRCI and road safety programs. Although, as is often the case with investment projects, it is possible that projects are subject to delay or are more protracted relative to their announced timeline, which would push out the timing of the spend relative to what has been presented in this work.

Graph 3

Infrastructure Investment Response to COVID-19

Announced spending by program

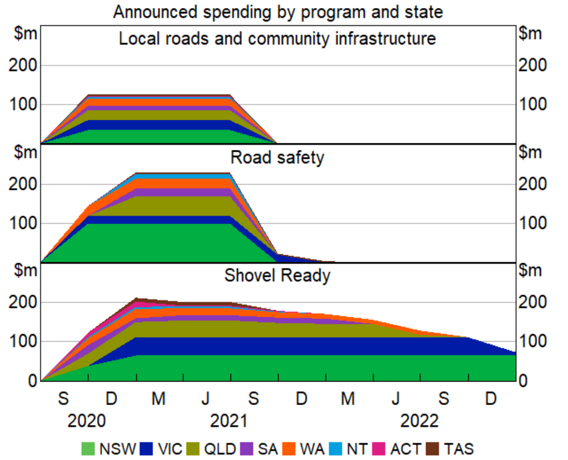


Sources: DITRDC; RBA

Graph 4

Infrastructure Investment Response to COVID-19

Announced spending by program and state



Source: DITRDC; RBA

The view from liaison

Since the spending announcements by the federal and state governments, liaison contacts have articulated a range of strengths and limitations about the infrastructure investment response to COVID-19 and the sector's capacity to deliver the projects.

Overall, contacts have welcomed the announced spending on projects that can commence quickly – not least because the projects will provide some support to activity and employment in the sector at a time when parts of their future pipeline of work are starting to diminish. More optimistic contacts report that shovel ready projects may add a marginal volume of work in the near term because governments have not deferred projects, as they have had the tendency to do in the past when priorities evolve, and they have brought other projects forward.

Contacts also highlight that because the announced projects are smaller in value and scale compared with very large infrastructure projects, such as NorthConnex, Sydney LightRail, and the WestGate Tunnel, a broader group of firms can tender for the projects because their risk profiles are less prohibitive.

This is because the existing balance sheets of many Australian firms are not sufficient to take on the risk associated with, in some cases, billion dollar projects. In particular, contacts highlight that, in recent years, firms contracted for the large public infrastructure projects have taken on a disproportionate share of the risk burden, relative to governments, for ‘slim margins’ in return – including for aspects of the projects where the risks were relatively unknown at the time of tender.

Notwithstanding the positive reception toward infrastructure spending, liaison contacts and industry experts are sceptical that ‘shovel ready’ projects are as new as governments, and subsequently the media, have portrayed them. Contacts have reported that many shovel ready projects are rehashes of old projects, projects that had progressed quite far in the application process, or projects that were expected to come online later in the infrastructure pipeline.

From a broader perspective, contacts also note that the announced projects may not help to reduce spare capacity in the labour market by as much as other targeted forms of stimulus might. To date COVID-19 has affected current civil construction activity by less than activity in other sectors, such as tourism and hospitality, and it is difficult for labour from the more affected sectors to transfer across into construction. However, contacts do emphasise that the programs will help to support some of their own workforce, particularly in light of their diminishing pipeline of work. Relatedly, some contacts have suggested that state governments should consider bringing forward other forms of infrastructure spending, outside of the transport sector, such as the large pipeline of public education and health-related buildings, slated for a few years away, as these types of projects are relatively more labour intensive.

On the other hand, contacts also highlight that it may be difficult for additional spending to accelerate civil construction activity from its currently high level. Some states already had large infrastructure pipelines prior to COVID-19, particularly on the east coast, and although the announced projects are smaller, they can still be highly complex. To date, contacts report that they are yet to observe or hear of projects associated with the three programs opening for tender or starting construction.

Summary

Following the outbreak of COVID-19, the federal and state governments collectively announced around $3 billion (0.15 per cent of annual GDP) of infrastructure investment spending under three programs. The three programs fund projects that can commence quickly, support jobs and stimulate the economy, with most of the spending to take place in 2020/21. However, the spending announced to date adds a relatively small amount to the pipeline of public infrastructure work yet-to-be done.

While the three programs represent an intention to support infrastructure activity in the near term, liaison contacts and industry experts are sceptical that shovel ready projects are as new as governments and the media have portrayed them. In addition, the reintroduction of containment measures, stricter constraints on construction site activity and slower economic activity in Victoria could result in project delays that may push out part of the projected spending profile.

Matthew Larkin
Economist
Regional and Industry Analysis
Economic Analysis Department
19 August 2020

Table 1: Examples of Larger Announced Projects

Program	State	Project	Funding ($m)
Shovel ready	NSW	Fixing Local Roads Program (various locations)	382
	VIC	Additional funding for the Regional Rail Revival	307.3
	QLD	Regional Economic Enabling Fund – progressive sealing, pavement strengthening and widening and bridge and floodway upgrades	158
	WA	Bussell Highway Duplication Stage 1 and 2	85
	SA	Heysen Tunnel refit and safety upgrade	15
	ACT	Northbourne Avenue pavement rehabilitation	10
	TAS	State Road Network enhancements (resurfacing)	10
	NT	Stuart Hwy Strengthening & Widening (Regional)	9.5
Road safety	NSW	Safer Roads Program – including rumble strips	398
	WA	Regional State Road Safety Improvement Program	100
	QLD	Kennedy Highway (Mareeba to Atherton)	37.5
	NT	Stuart Hwy – Safety improvements	23.4
	VIC	Intersection safety upgrades on 30 high-speed, high-risk rural intersections	20
	SA	Installation of safety barriers at high-risk crash sites across South Australia	10
	TAS	Huon Highway/Sandfly Road junction	7
	ACT	Road safety barriers on 6 arterial roads	1.7
Local roads and community infrastructure	All	Various projects across local government areas	500

Sources: DITRAC; Morrison

From: GADSBY, Paula
Sent: Wednesday, 19 August 2020 5:27 PM
To: LARKIN, Matt
Cc: VAN DER MERWE, Michelle
Subject: RE: talking points on shovel ready [SEC=OFFICIAL]

Thanks Matt, I will give you a shout out as well!

From: LARKIN, Matt
Sent: Wednesday, 19 August 2020 12:06 PM
To: GADSBY, Paula
Cc: VAN DER MERWE, Michelle
Subject: RE: talking points on shovel ready [SEC=OFFICIAL]

That looks right to me.
Happy to field any questions that come up.

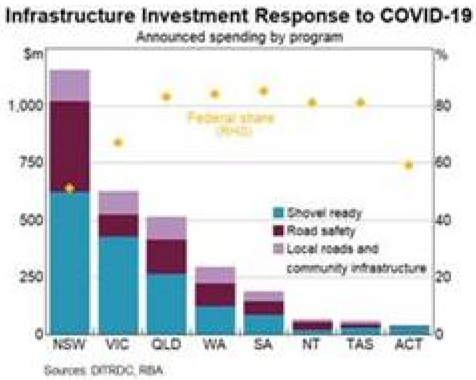
From: GADSBY, Paula
Sent: Wednesday, 19 August 2020 2:03 PM
To: LARKIN, Matt
Subject: talking points on shovel ready

Hi Matt,

Here is the graph and points I am talking to for your shovel ready stuff in the preso:

a) The federal and state governments collectively announced around $3 billion (0.15 per cent of annual GDP) of infrastructure investment spending toward smaller projects that could commence quickly, create jobs and stimulate the economy.

As can be seen in the yellow dots, to date these announced measures have been predominantly funded by the federal government.



a. The programs

- The announced spending falls into three programs – shovel ready ($1.6 billion), road safety ($860 million), and the solely federally funded Local Roads and Community Infrastructure ($500 million).
- The federal government has committed around two thirds of the total spending amount, but the proportion varies between states (see yellow diamonds in Graph).

- The vast majority of spending is associated with smaller public road projects that should commence construction in mid to late 2020 and finish by early 2023, with governments allocating the bulk of funding to 2020/21 (Graph 2).[1]

Can you please let me know if this does your note justice Or if there is anything else I should add? I think Kate is going to talk to your other graph on the infrastructure pipeline.

Thanks,

Paula Gadsby | Economist | Western Australian Office
RESERVE BANK OF AUSTRALIA |Level 11, London House, 216 St Georges Terrace, Perth WA 6000
| w: www.rba.gov.au

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[1] We assume that spending on projects will be equally distributed across each quarter of the outlined delivery timeline. We make this assumption because these projects are typically smaller scale and have. In some cases, many smaller road projects are bundled into larger packages and will be executed at various points over the timeline provided. Further, the road projects will likely involve a short ramp up followed by a relatively sustained level of maximum spending over the duration of the project.

RESERVE BANK OF AUSTRALIA

EC Policy Meeting

20 August 2020

EC Policy Meeting Agenda

2. Fiscal policy – current stance at the federal and state level

up to 45 minutes incl discussion

RESERVE BANK OF AUSTRALIA

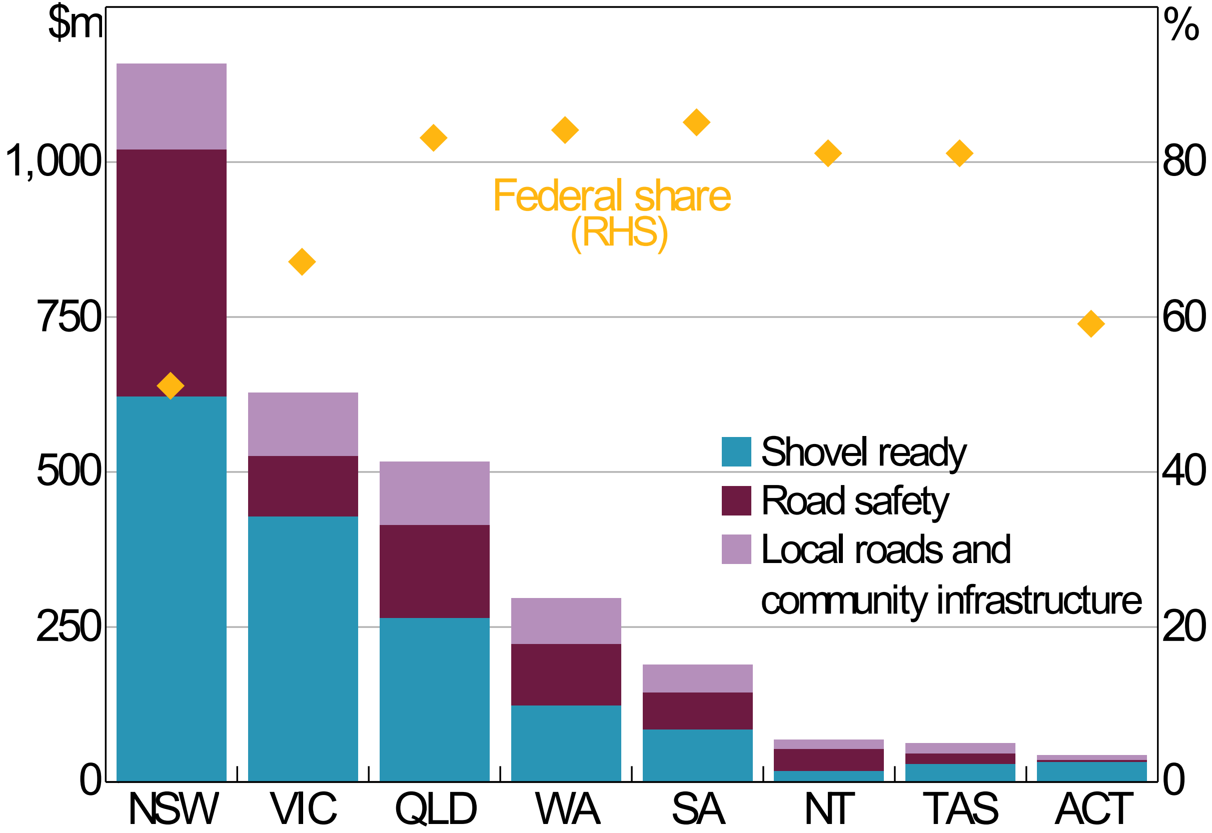
Fiscal policy: Some considerations

Kate McLoughlin, Paula Gadsby, Tomas Cokis, Matt Larkin

20 August 2020

Infrastructure Investment Response to COVID-19

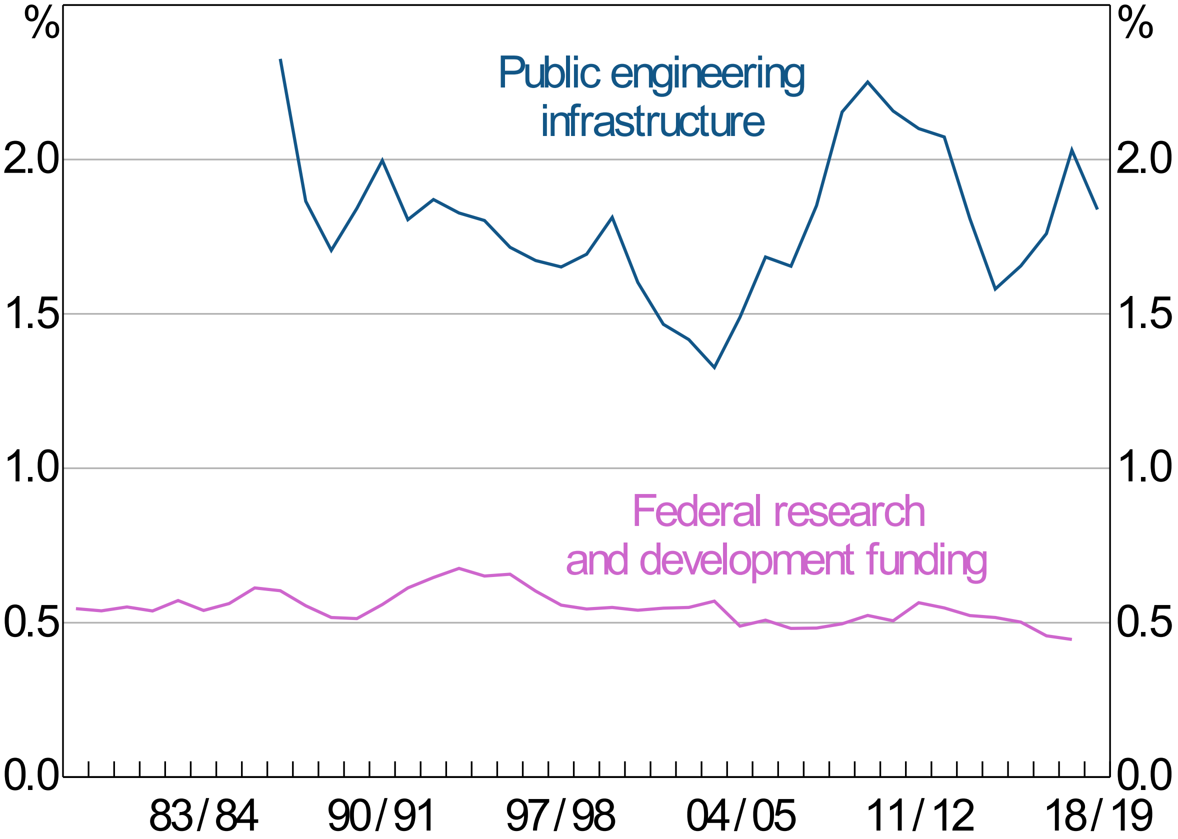
Announced spending by program



Sources: DITRDC; RBA

Forms of Government Investment

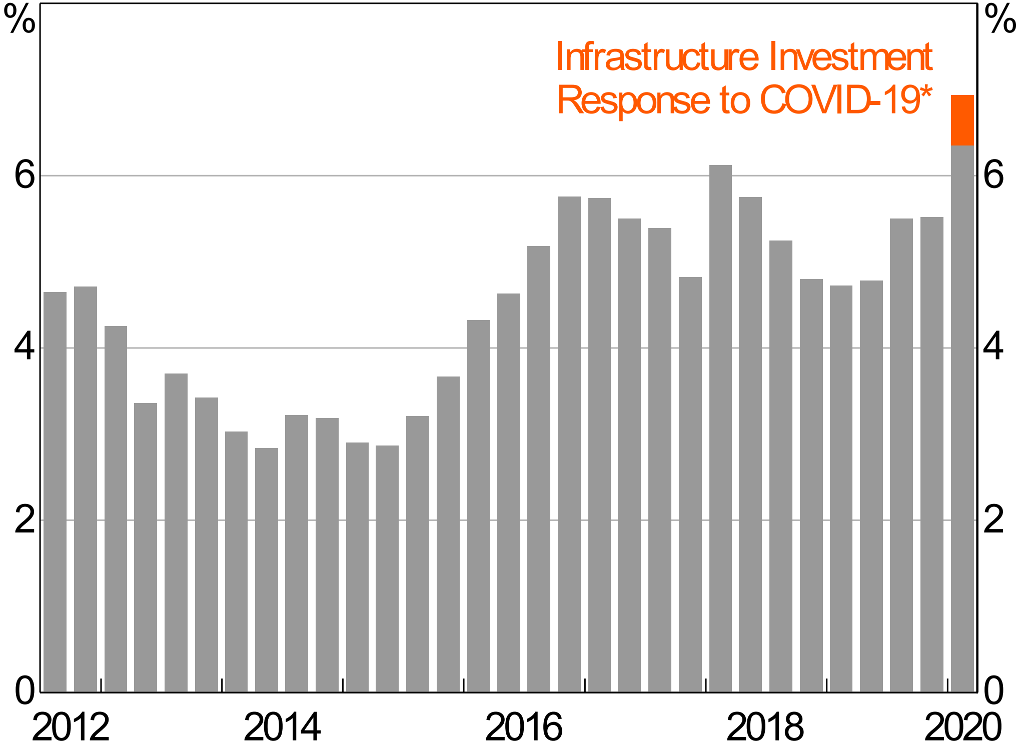
Share of GDP



Sources: ABS; Australian Treasury; RBA

Public Infrastructure Work Yet-to-be Done

Per cent of quarterly GDP



* Smaller projects announced by federal and state governments in response to COVID-19 to be completed 2020 to 2023; this is indicative only, as most projects have not yet commenced

Sources: ABS; DITRDC; RBA

From: HITCHEN, Judy
Sent: Friday, 21 August 2020 3:45 PM
To: LOWE, Phil
Subject: National cabinet [SEC=OFFICIAL]

https://www.smh.com.au/politics/federal/states-urged-to-spend-another-40b-in-reserve-bank-call-on-jobs-20200821-p55o3r.html

“suggested” “proposed” or “recommended” might have been better than “called” or “asked”

Easy to say in hindsight

From: Bank Communications
Sent: Monday, 24 August 2020 8:47 AM
To: All RBA Staff
Subject: Media Summary: 24 August 2020 [SEC=OFFICIAL]

Reserve Bank calls on states to spend extra $40 billion

Meanwhile, the Governor reportedly recommended states and territories to inject another $40 billion into infrastructure to help create jobs at a briefing to national cabinet on Friday. The Governor is said to have stressed the need to abandon efforts to preserve credit ratings to the detriment of economic recovery with state and territory leaders able to absorb the debt required. Ratings agencies allegedly backed the call from the Reserve Bank saying 'state government balance sheets have plenty of room to accommodate additional infrastructure investment'.

Media and Communications
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
| w: www.rba.gov.au

Analytical background points for August pre-PDG discussion of policy issues

Given large expansion in fiscal policy and its role at the moment in affecting activity and the outlook, discussion to recap what has been spent on fiscal policy and

review what alternative scenarios may look like.

Some issues suggested by preliminary analysis include:

- Both state and federal governments may need to provide a strong and ongoing boost to domestic demand for some time.
- Increased public investment could be part of a package, but an increased understanding of the range of investment types is sensible – ie this doesn't have to be limited to infrastructure spending.

Ongoing direct spending could be needed.

Announced additional spending by the states to date has been more modest in $ terms.

State governments announced at least $33bn in fiscal measures in response to the pandemic, equivalent to just under 2 per cent of GDP.

Note - these estimates only include new spending to address the impacts of COVID-19, and do not include other spending that has been brought forward or announced measures that were not costed.

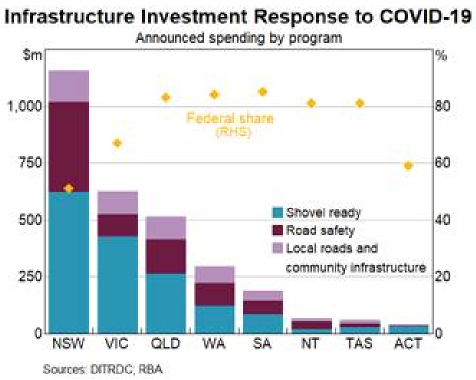
As a percentage of GSP, Tasmania has announced the largest measures, followed by Queensland and Victoria.

- From mid-May - restrictions eased - states started announcing measures pitched at supporting the recovery, including residential construction activity and infrastructure projects.

Also federal and state governments collectively announced around $3 billion (or 0.2 per cent of GDP) on infrastructure investment spending toward smaller projects that could commence quickly, create jobs and stimulate the economy. Also known as 'shovel ready' projects. Liaison suggests that these projects are largely pulled forward.

The federal government has committed around two thirds of the total spending amount, but the proportion varies between states (as you can see from the yellow diamonds in this Graph).

It is important to note that this is just one particular project stream that the federal government is involved in, while the states have announced their own independent investment programs. So the federal share above only reflects that federal share of COVID response 'shovel ready work stream', not broader infrastructure spending.



- The announced spending falls into three programs – shovel ready ($1.6 billion), road safety ($860 million), and the solely federally funded Local Roads and Community Infrastructure ($500 million).

- The vast majority of spending is associated with smaller public road projects that should commence construction in the second half of 2020 and finish by early 2023, with governments allocating the bulk of funding to FY21.[1]

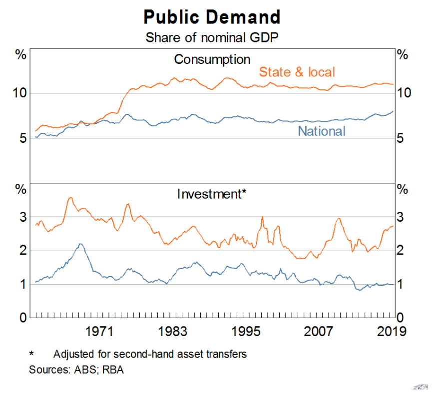
1 We assume that spending on projects will be equally distributed across each quarter of the outlined delivery timeline. We make this assumption because these projects are typically smaller scale and have. In some cases, many smaller road projects are bundled into larger packages and will be executed at various points over the timeline provided. Further, the road projects will likely involve a short ramp up followed by a relatively sustained level of maximum spending over the duration of the project.

Possible expansionary fiscal policy going forward and issues that may arise.

There are many candidates for both cyclical and structural initiatives and reforms which may be under consideration by fiscal authorities–discussion to highlight just some of the issues that may be under consideration.

- Policy announcements may also arise around increased public investment - this could include spending beyond just increasing spending on economic infrastructure such as roads and transport, energy and water.

Some relevant issues include:

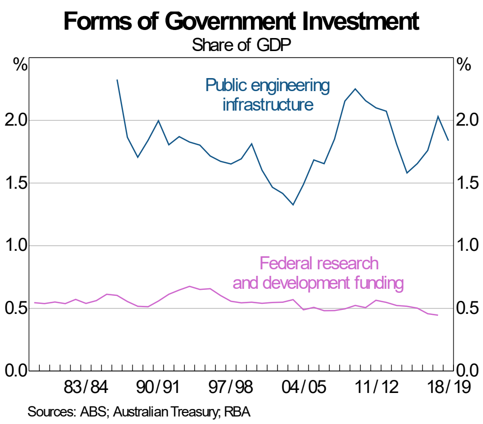


Investment spending remains below previous peaks in the post-GFC period

From both a fiscal sustainability and a political-economic perspective we'd expect funding may be shared across both layers of government.

Other issues:

- Large scale increases in spending over a number of years could have larger multipliers now, given the amount of spare capacity and the level of interest rates.
- Public investment – data are imperfect and more work is required, including on types of investment and growth.
    - [textbook econ - role of R&D in growth models]
- Some measures from the Department of innovation suggest that as a share of GDP, research funding has been largely unchanged over the past 30 years.

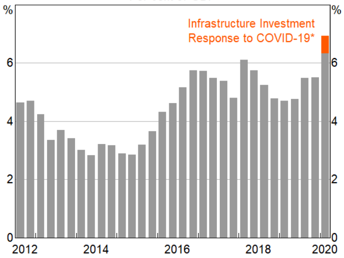


- Increased spending on infrastructure investment is also likely to be considered, but some insights from liaison suggest there are some capacity constraints to large scale acceleration in civil construction activity.
- Finance for infrastructure spending –
  federal government financing much of the 'shovel-ready' infrastructure announcements in response to COVID – but so far small relative to the existing pipeline of work

understood to be funded by the states, which has been a key contributor to the increase in the net debt of the states since 2006.

Public Infrastructure Work Yet-to-be Done

Per cent of GDP



* Smaller projects announced by federal and state governments in response to COVID-19 to be completed 2020 to 2023; this is indicative only, as most projects have not yet commenced

Sources: ABS; DITRDC; RBA