Analyst tips $10bn budget shortfall as tax take falls

PETER MARTIN

FAR from delivering the promised budget surplus of $1.5 billion, Treasurer Wayne Swan is on track to deliver a deficit of $8 billion unless he cuts far harder than he had been planning, according to a private sector analysis traditionally delivered a week before the budget.

Macroeconomics, a consultancy run by former Treasury modeller Stephen Anthony, finds the 2012-13 budget position $10 billion worse than forecast in the government's November midyear update. Most of the collapse is due to a $6 billion shortfall in company tax revenue compared with what was expected at the time of the update.

"It's losses throughout the tax base," Mr Anthony told BusinessDay. "The Tax Office reckon they've reached 24 per cent of GDP. Usually they are 6 to 8 per cent of GDP. These are losses spread among individuals, super funds, trusts and companies, and they include capital losses in place of capital gains. Along with declining terms of trade, a weaker than expected economy and mining industry depreciation expenses in place of taxable profits, it has put a spanner in the works."

The Macroeconomics model projects structural budget deficits for the next decade and continued growth in government debt unless very big cuts are made on May 8 and spending growth is kept tight for the rest of the forward estimates.

"The Treasurer needs to cut $10 billion to deliver a surplus and $15 billion to deliver a structural surplus," Mr Anthony said. "Otherwise there will be no sustainable return to surplus this decade."

He said many of the government's commitments were making Mr Swan's job harder.

"Lifting the superannuation guarantee to 12 per cent will see the cost of the concession rise as the value of superannuation assets climbs. Yet the supposed funding comes from the mining tax, which will diminish in GDP terms when the boom ends. The gap between the two could reach $5 billion to $7 billion by 2019-20."

A list of suggested budget cuts in the report is headed by "middle and upper-class welfare". "We suggest spreading the pain of adjustment as thinly as possible and imposing the largest burden on those likely to benefit from an upswing in the business cycle," the report says.

"Large savings can also be achieved through the widespread adoption of competitive tendering processes, and incorporating economic efficiency principles into contract design."

Seven West value takes $572m hit

KIRSTY SIMPSON

INVESTORS have savaged Seven West Media shares, wiping $572 million from the company's value yesterday.

After tumbling 16 per cent when the market opened, Seven West shares slid further in the last hour to end the day 22.8 per cent lower at $2.91, levels last seen in October 2011. It was the first trading day since an earnings downgrade on Tuesday.

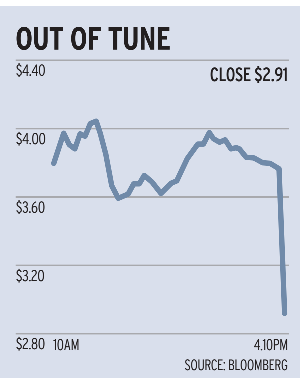
Seven has outfoxed rivals in ratings and advertising share in the past year but analysts were shocked by the extent of the extra costs of its programming. Nine's ratings phenomenon *The Voice* might mark a dimming of Seven's dominance.

The lower-than-expected full-year earnings forecast of $460 million to $470 million could drive up the group's gearing levels, Goldman Sachs analyst Christian Guerra warned.

Seven sources denied speculation advertisers had sought "make goods" — extra advertising slots — after the success of *The Voice* led to poorer-than-expected showing for some of Seven's programming.

A Morgan Stanley note to clients said: "A number of its major shows which go head-to-head with *The Voice* have viewers down a hefty 30-40 per cent on previous corresponding periods . . . if viewership levels don't recover, advertisers may seek to be made good. That would hurt Seven's ad market share." In downgrading Seven West, Morgan Stanley warned the group had "very high operating leverage", in particular TV costs were rising significantly, and "high financial leverage . . . which leaves it vulnerable to a prolonged downturn in advertising markets and/or sudden shifts of TV market share against it".

Nevertheless, Channel Seven has an advertising share of about 40 per cent, compared with Nine's at nearly 32 per cent and Ten at 28 per cent.



Going up: House prices over the past two quarters have reversed 15 months of falls. PICTURE: GLENN HUNT

House price lift brings glimmer of hope

SIMON JOHANSON

AUSTRALIA'S house prices rose slightly over the March quarter, bringing more positive news for the housing market.

Between January and March this year prices rose 0.9 per cent, the second consecutive quarter of growth, figures from property data provider Australian Property Monitors show.

The lift in prices over the past two quarters follows 15 straight months of falls, APM said.

It also comes after a recent slump in building approvals, new home sales and lending. Sydney's continuing housing shortage continued to bolster prices, which rose 1.4 per cent.

And Melbourne recorded a surprise rise of 1.6 per cent, the figures show.

All capital cities apart from Brisbane and Adelaide saw their prices rise, APM said.

"Although the Melbourne market has been encouraging so far this year, this may prove to be short-lived if the Victorian economic performance continues to deteriorate," APM economist Andrew Wilson said.

"Sydney was the standout performer in the unit market over the quarter, with median unit prices rising by 2.5 per cent," he said. Other data continues to reveal mixed signals about the state of the property market.

Earlier this month another property analyst, RP Data, said the nation's house prices had stayed flat over the same period.

Melbourne's fell 0.8 per cent but Sydney's rose 1.1 per cent, RP Data said.

And auction clearance rates — another indicator of the market's health — have edged up this year, with both Sydney and Melbourne hovering around 59 per cent.

The more upbeat APM figures may not shift would-be home owners cautious about deciding when is a good time to buy.

"It is slow to steady, there's no boom happening out there at the moment," said Stockdale & Leggo's chief executive, Peter Thomas.

Not much property was coming on to the market and inquiries were subdued, he said.

"It certainly is a great time for buyers looking to purchase because they're not under the pressure they were before, and prices are stable," Mr Thomas said.

The interest of buyers may be piqued next week, with many analysts tipping that the Reserve Bank will reduce interest rates on Tuesday.

About 550 auctions are expected in Melbourne this weekend, the REIV said.

Fairfax Media, owner of *The Age*, owns APM.

Telstra's good news pays dividends as its shares bounce back

LUCY BATTERSBY

TELSTRA closed at $3.54 yesterday, its highest share price since December 2009, as investors fled to defensive stocks.

Telstra has confirmed it will maintain annual dividends at 28¢ for the next two years. It will also set aside billions from its deal with NBN Co for a possible dividend increase after 2014.

Shares surged 7¢ on Wednesday's closing price and reached a 30-month high. Telstra plunged to $2.79 last August amid fears it would not complete the deal with NBN Co.

Chief executive David Thodey said last week Telstra would consider increasing dividends in 2014, when it had enough franking credits, or conduct an on-market share buyback.

The telco finalised a deal with NBN Co on March 7. It valued the deal at $11 billion in 2010. Last week Telstra revealed it would take in $2 billion to $3 billion in excess cash flow over the next two to three years, with regular annual payments from 2015 onwards.

Telstra is one of the highest-yielding stocks on the market at around 8.75 per cent — attractive in light of a likely cash rate cut by the RBA next week.

Analysts say foreign investors have become interested in Telstra because of its high yield. Geoff Voller, senior private client adviser with RBS, said his domestic clients had been looking for low-risk defensive shares over the past four to six weeks. "And following the NBN deal and some really impressive presentations by David Thodey, I think people are starting to get a lot of confidence that the Telstra business model is a good one," he said.

"An increase to dividends or a share buyback would also push up the share price leading to a capital gains."

■ The Federal Court this morning will deliver its judgment on an appeal by Telstra, the AFL and the NRL against a decision allowing Optus to sell a mobile television service.