

# MNI POLITICAL RISK ANALYSIS – Australia Election Preview

by Tom Lake

Australians head to the polls on 21 May with incumbent Prime Minister Scott Morrison seeking to pull off a second successive upset victory to secure a fourth consecutive majority for his Liberal/National Coalition. The election campaign has been an ill-tempered affair, with little in the way of substantive policy discussion. Nevertheless, markets will be watching closely given the importance of Australia with regards to global commodity production and prices as well as its strategic position as a key US ally in the Indo-Pacific.

## Executive Summary

- The opposition centre-left Australian Labor Party (ALP) is on course to oust Prime Minister Scott Morrison's centre-right government following nine years of Liberal/National Coalition rule.
- Opinion polls point to a relatively close race on primary votes. However, Australia's electoral system means Labor stand a strong chance of picking up seats based on second preference votes from Green and independent candidate supporters.
- The largely centrist policy platform put forward by the ALP means there are unlikely to be any significant market shocks in the event Morrison is ousted. Similarly, should the Liberals pull off another unexpected electoral win we would expect to see broad policy continuity.
- Policy instability could result from the scenario of a minority Labor administration propped up by the Greens. The Greens could seek to extract significant concessions on taxation and spending, as well as climate change policy in exchange for their votes to put ALP leader Anthony Albanese in the prime minister's office.

In this election preview we will provide a short briefing on how the election works and who the main parties are, a chartpack of opinion polling and betting market data ahead of the vote, a scenario analysis examining the probabilities and implications of various outcomes, and some sell-side views on the contest.

## How Does the Australian Election Work?

In the 21 May election, Australian voters will travel to the polls to elect all 151 members of the House of Representatives – the lower house of the Parliament of Australia – and 40 of the 76 seats in the upper house, the Senate.

Members are elected to the House of Representatives in single member constituencies (known as divisions) via majority-preferential instant-runoff voting. Voters must rank the candidates in their division from most to least preferred, with the most preferred being marked with a one (known as the 'first preference vote'), down to the least preferred who would be marked with the number of the total number of candidates in the division.

In the event a candidate wins 50%+1 of the first preference votes they are elected automatically. If no candidate achieves an overall majority, the candidate with the fewest number of first preference votes is eliminated. The second preference votes from the eliminated candidates are then distributed to the remaining candidates.

If still no single candidate holds a majority of total votes at this point, then the next candidate with the lowest number of first preference votes is eliminated and their second preferences distributed. This process continues until one candidate holds a majority of the total votes and is thereby elected. Should a voter's second preference be for an already-eliminated candidate then the third preference is used, with the process continuing in this fashion down to the final preference vote.

Australia is one of the few nations in the world that implements mandatory voting, ensuring huge turnout in the 90-95% of the full electorate range. Anyone who does not vote and does not have a valid excuse receives a fine of AUD20. Individuals who do not pay can see fines with costs rise as high as AUD222 if they end up in court.

## Main Political Parties/Groups

- **Coalition**

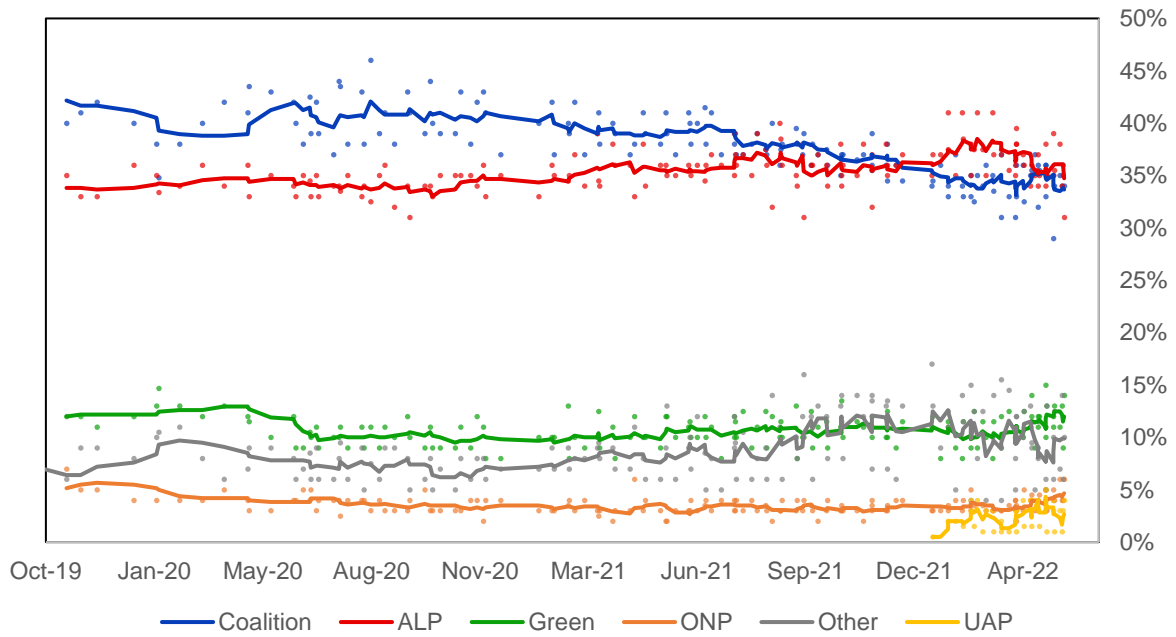
- **Liberal Party of Australia** – Liberals – Leader: Scott Morrison (*PM 2018-, Treasurer of Australia 2015-18, Minister for Social Services 2014-15, Minister for Immigration and Border Protection 2013-14, Member for Cook 2007-*) – Founded: 1944 – Political Position: Centre-right, liberal conservatism – House of Representatives Seats: 60/151 – Senate Seats: 31/76
- **National Party of Australia** – NPA, Nationals, Nats – Leader: Barnaby Joyce (*Deputy PM 2016-18, 2021-, Minister for Infrastructure, Transport & Regional Development 2017-18, 2021-, Member for New England 2013-, Senator for Queensland 2005-13*) – Founded: 1920 – Political Position: Centre-right, conservatism, agrarian – House of Representatives Seats: 16/151 – Senate Seats – 4/76

- **Australian Labor Party** – ALP – Leader: Anthony Albanese (*Leader of ALP 2019-, Deputy PM 2013, Minister for Infrastructure & Transport 2007-13, Manager of Opposition Business 2006-07, Member for Grayndler 1996-*) – Founded: 1901 – Political Position: Centre-left, social democratic – House of Representatives Seats: 68/151 – Senate Seats: 26/76
- **Australian Greens** – The Greens – Leader: Adam Bandt (*Leader of the Australian Greens 2020-, Deputy Leader 2012-15, 2017-20, Member for Melbourne 2010-*) – Founded: 1992 – Political Position: Left-wing, environmentalism, progressive, anti-neoliberalism – House of Representatives Seats: 1/151 – Senate Seats: 9/76
- **Pauline Hanson's One Nation Party** – ONP – Leader: Pauline Hanson (*Leader of ONP 1997-2002, 14-, Senator for Queensland 2016-, Member for Oxley 1996-98*) – Founded: 1997 – Political Position: Right-wing, nationalism, populism – House of Representatives Seats: 1/151 – Senate Seats: 2/76
- **United Australia Party** – UAP – Leader: Craig Kelly (*Leader of UAP 2021-, Member for Hughes 2010- (elected as Liberal)*) – Founded: 2009, Re-founded: 2018 – Political Position: Right-wing, libertarian, populism – House of Representatives Seats: 1/151 – Senate Seats: 0/76

- **'Teal Independents'/Voices for** – Leader: N/A – Founded: N/A – Political position: anti-Coalition, environmentalist – House of Representatives Seats: 0/151 – Senate Seats: 0/76

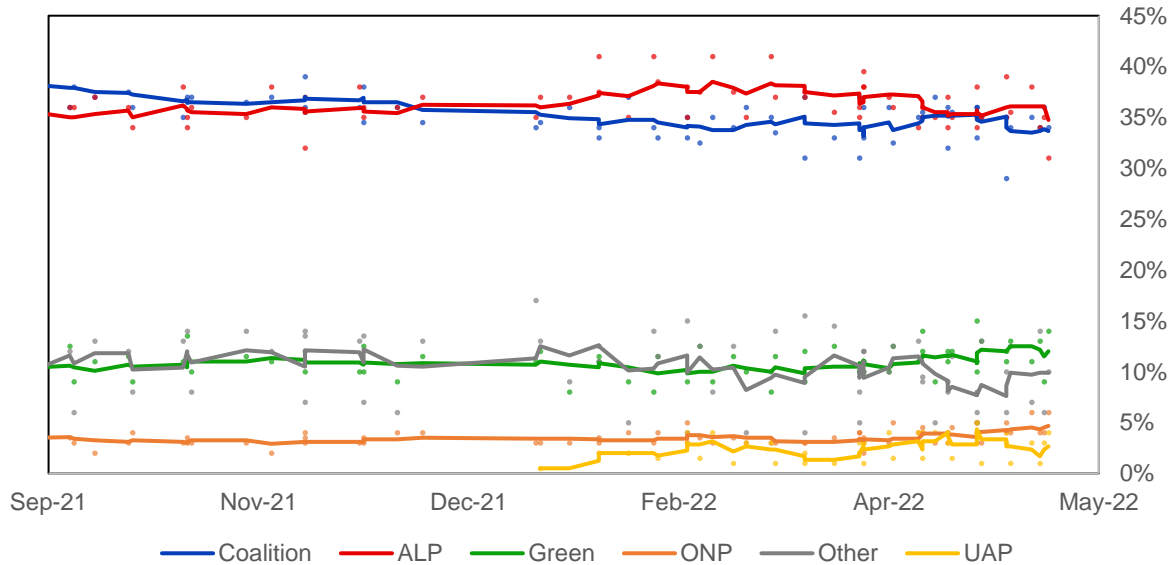
Election Chartpack

**Chart 1. Australia Federal Election Opinion Polling (Primary Vote, Long-Term), % and 6-Poll Moving Average**



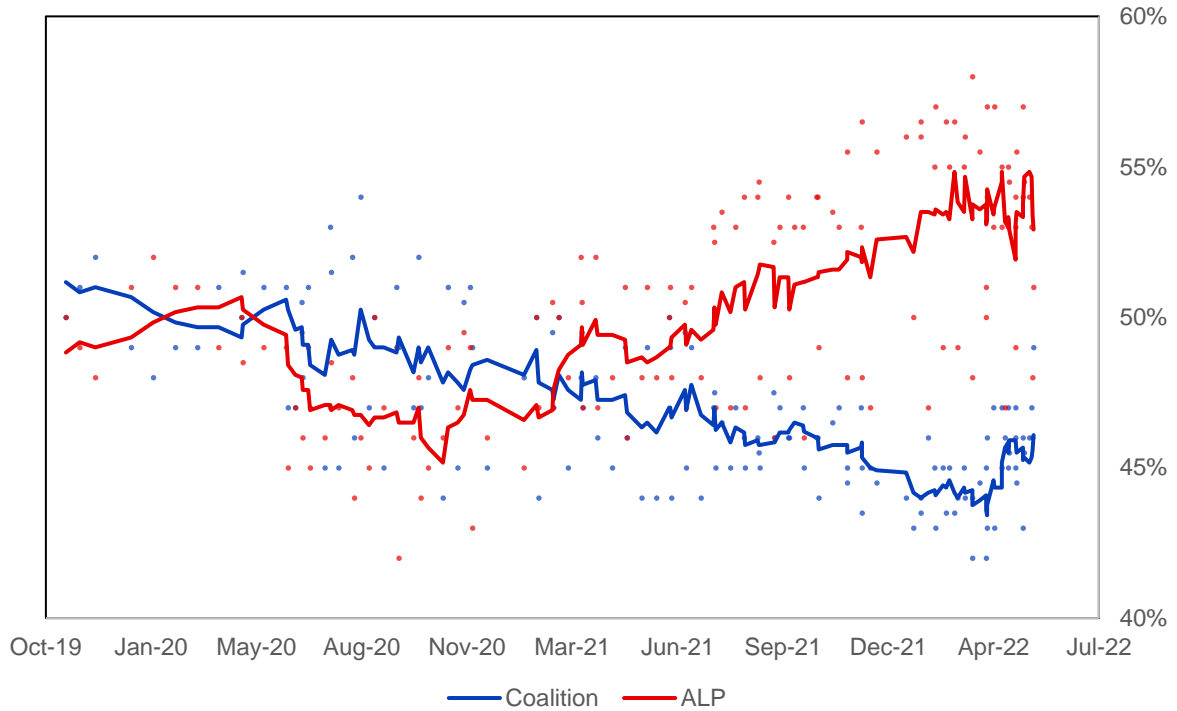
Source: Resolve Strategic, Essential, Roy Morgan, Newspoll-YouGov, Ipsos, MNI

**Chart 2. Australia Federal Election Opinion Polling (Primary Vote, Short-Term), % and 6-Poll Moving Average**



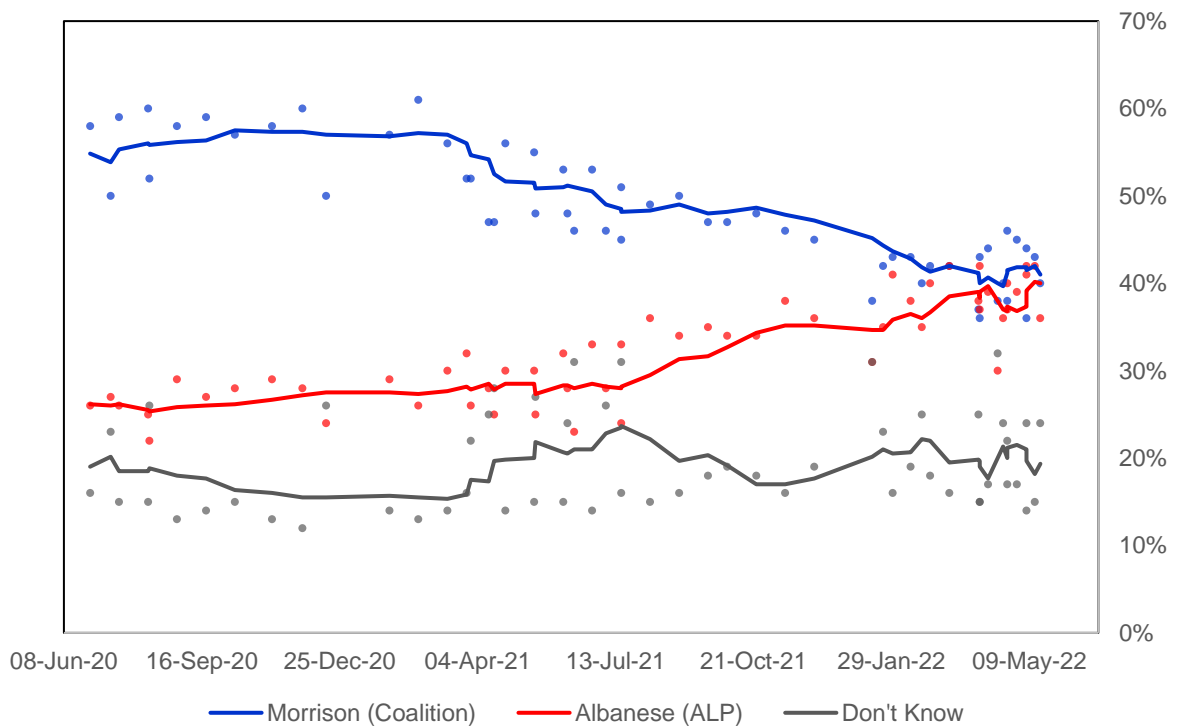
Source: Resolve Strategic, Essential, Roy Morgan, Newspoll-YouGov, Ipsos, MNI

**Chart 3. Australia Federal Election Opinion Polling (Two-Party Preferred Vote), % and 6-Poll Moving Average**



Source: Resolve Strategic, Essential, Roy Morgan, Newspoll-YouGov, Ipsos, MNI

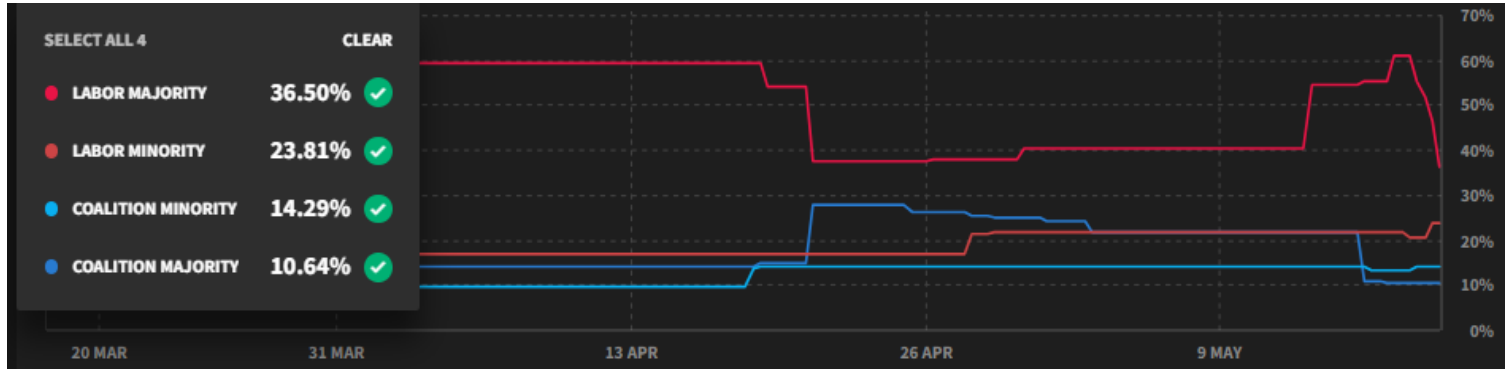
**Chart 4. Preferred Prime Minister, % and 6-Poll Moving Average**



Source: Resolve Strategic, Essential, Roy Morgan, Newspoll-YouGov, Ipsos, MNI

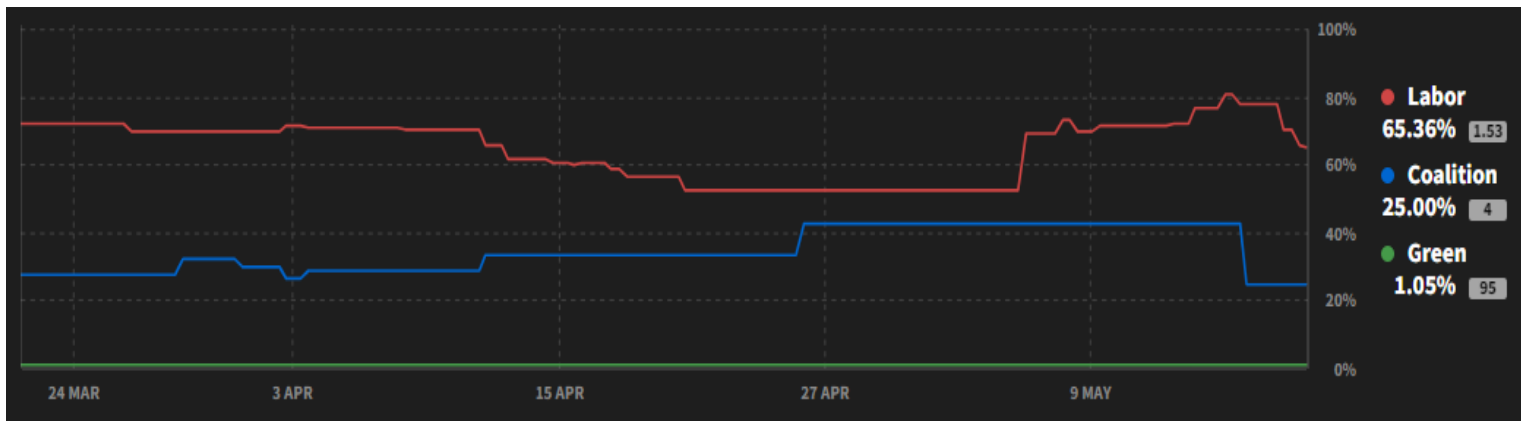


**Chart 5. Betting Market: ‘What will be the make-up of the next government formed after the 2022 federal election?’ %**



Source: Smarkets

**Chart 6. Betting Market: ‘Which party will win the most seats at the next Australian federal election?’ %**



Source: Smarkets.

## MNI Political Risk Scenario Analysis

### Labour Win Outright Majority – 50% Probability

While primary vote polling has shown the ALP and Coalition within close proximity to one another for some months, two-party preferred voting has shown a consistent lead for Anthony Albanese’s ALP. With 10-15% of the electorate stating that they will back the leftist Greens with their primary votes, the large majority of these voters are likely to opt for the ALP as their second or third preference vote, with the Liberals well down the list providing a notable boost to Labor candidates.

Labor’s policy platform this election has shifted closer to the political centre ground in comparison to its 2019 manifesto, meaning there will be little in terms of market-impacting shocks should a majority Labor administration be formed. Nevertheless, Labor’s election policies costing document shows its plans would result in Australia posting AUD7.4bn in higher deficits than currently forecast over the next four years. On issues of foreign policy, notably with respect to Sino-Australian relations, the ALP is seen as something of an

unknown quantity. Albanese has stated his party's support for the AUKUS alliance with the US and UK, but he will come under intense scrutiny from Washington, D.C. and other US-aligned capitals in the Indo-Pacific to see if Australia remains the 'tip of the spear' for the West in the region (using a term from the Lowy Institute think tank).

### **Labour Form Minority Government – 25% Probability**

Should no party win an overall majority, the most likely outcome would be a minority Labor administration propped up by the Greens or independent representatives. This could prove the scenario with the greatest amount of market risk attached, especially if it is the Greens that the ALP rely on for support. In exchange for their support, the Greens are likely to demand concessions. This could focus on greater welfare spending increases combined with tax hikes and/or more significant and faster action on combatting climate change, which could have a notable impact on the Australian business environment and commodities sector.

Should the 'teal independents' win a number of Liberal seats and come together to support a Labor administration the policy impact would certainly prove more muted than a Green-backed ALP government. The 'teal independents' are running in generally wealthy Coalition party strongholds, and therefore are not advocating for leftist policies with regards to taxation and spending, so not to scare off middle-class Liberal voters. Instead the broad group are centring their campaigns on protecting the environment as well as addressing gender imbalances in Australian politics (the teal independents are largely female candidates running against male Liberal incumbents) and corruption issues.

### **Coalition Win Outright Majority – 20% Probability**

There is notable possibility that the Coalition pulls off a second consecutive shock election win. This would come as a vindication of PM Morrison's hard-line foreign policy stance on China and his government's efforts in containing the COVID-19 pandemic which has resulted in far fewer fatalities than other similarly sized populations worldwide. In the event of a Liberal win, we would expect to see broad policy continuity, with Canberra continuing to tack a close line to regional and global allies such as the US, Japan, and South Korea in combatting growing Chinese influence in Asia.

As part of its election costings commitment, the Liberals have also stated they will seek to narrow Australia's budget deficit by around AUD1bn (USD700mn) by enacting cuts to bureaucracy. This would result in a marked AUD8.4bn difference in terms of the outlook for the Australian budget deficit between Coalition and ALP administrations.

### **Coalition Form Minority Government – 5% Probability**

The most unlikely post-election scenario is one in which no party secures a majority, but Morrison's Coalition is able to garner enough support from smaller parties to retain power. There are fewer potential allies for the Coalition compared to Labor. The latter can likely rely on the support of the Greens and most independents. The Coalition on the other hand would likely only secure outside support from the right-wing Pauline Hanson's One Nation Party (ONP) or the United Australia Party (UAP). These parties are unlikely to win more than one or two seats between them, making the prospect of them propping up a minority Morrison administration a long shot. Nevertheless, should this scenario occur it would likely involve

concessions involving more hard-line policies on immigration and asylum or other hot-button topics for socially conservative voters.

## Sell-Side Views

### ANZ

- The polls suggest that a Labor victory or hung parliament are the most likely results of the upcoming Federal election. But with the 2019 result in mind and just over a week to go, a Coalition victory should not be ruled out.
- The stated policy differences between the Government and Labor opposition are intentionally modest, though there are some important differences in Climate and labour market policy... The polls indicate that Labor has the lead. However, the share of undecided voters is large.
- What's more, the primary vote of both major parties looks low, although it's worth noting that this has been trending lower for decades. This creates considerable uncertainty as to where the preferences for the minor parties and independents will flow...we can't rule out there not being a clear winner on the night, with a hung parliament a possibility.
- For this election the Labor opposition has deliberately adopted a 'small targets' strategy. There are no differences on tax policy, other than Labor's pledge to crack down on tax avoidance by multi-national firms. The differences in spending plans are also very small relative to the overall size of the economy, though Labor's Shadow Treasurer has said that they may have slightly bigger deficits than the Coalition...Labor has matched the Coalition with regard to defence spending and foreign policy more generally.
- Another area of difference is with respect to the labour market. The leader of the Labor party said this week that he supports an increase in the minimum wage of more than 5% this year, though Labor has walked back bit from this by saying it hasn't yet decided to make a formal submission to the Fair Work Commission (FWC) about this.
- One thing both the Coalition and Labor are committed to is a major review of the RBA. Exactly what the terms of reference of the review will be is unclear at this stage. The Commonwealth Treasury will be providing the key advice on the review to whoever wins power, so we don't think there will be too much difference in the outcome regardless of who wins power. But a broad review does increase the risk of unexpected outcomes, so we will monitor developments in this space very closely.

### Barclays

- Opinion polls show Labor leading the incumbent Coalition ahead of the 21 May Federal Election. There is little difference in the policy agendas of the two parties in terms of economic impact. The risk for markets could come from a hung parliament, which remains a possibility.
- ...we note that all opinion polls prior to the 2019 election also pointed to a Labor victory, though the Coalition ended up winning with a small majority. Still, Labor's

margin over the Coalition was thin in 2019 opinion polls. This time, a number of polls have given Labor a double-digit lead over the Coalition.

- It is possible that neither of the two major parties is able to secure 76 seats needed to form government, which would lead to a hung parliament or a minority government of either party with support from the Greens, independents or others.
- Primary-vote polling shows increasing preference for candidates other than those selected by Labor and the Coalition. Indeed, some polls show the Greens and others sharing more than 30% of the primary vote, well ahead of where polls had them in 2019. Still, candidates from outside the two main parties received 25.22% of the primary vote in 2019, suggesting that this time around a higher number of seats may go to non-Labor, non-Coalition members. Even the Treasurer Josh Frydenberg, is trailing an independent candidate on a 2PP basis for his seat, which has been held by conservatives since federation in 1901 - in opinion polls.
- Opinion polls favour Labor in the 2PP system, but tilt towards the Coalition's Scott Morrison as Prime Minister. The same polls, however, also show high dissatisfaction of the public with the incumbent Prime Minister. In our view, this suggests that neither party has overwhelming support and that a hung parliament cannot be ruled out, given the shifting of votes to independents or Greens.
- Policy platforms offered by Labor and the Coalition are more similar in this cycle than in 2019, meaning the impact for the economy and markets should be smaller than it would have had been had Labor succeeded in 2019.
- For the current election, there is little distance between the two major parties on jobs, childcare, aged care. While differences do exist, in terms of some taxes, timing of net-zero carbon emissions, the main aspects are similar. Fewer policy differences suggest less economic and market impact.
- Risk for markets this year...emerges from a hung parliament or a minority government formed with the support of Greens on independents. A hung parliament could impede the passage of legislation or lead to the government being forced to pass laws that are less market friendly, especially if support from the Greens is required to form the government.
- For example, the Labor government of Prime Minister Julia Gillard with the support of Greens implemented a carbon tax in 2012. Labor, after switching leaders back to Kevin Rudd, changed its policy on the deeply unpopular carbon tax in the lead up to the 2013 election, which was won by the Coalition.

### **Morgan Stanley**

- After several weeks of campaigning, the Federal Election is due this Saturday, 21 May. Polling has been relatively steady in showing the opposition Labor Party in the lead...with around 20% of the electoral roll having already voted...
- Minor Parties and Independents remain competitive across several seats - leaving the possibility of a Minority Government as a key market risk. With a large cross-bench likely this could see fiscal policy much less active - which may be problematic as economic growth slows and the temporary stimulus announced in the FY23 Budget rolls off.
- The campaign has largely not changed our view that policy risk is small relative to prior elections, with the gap between Major Parties less than usual.



- week, the Labor leader stated he supported an increase of the minimum wage to match inflation (5.1%Y) - increasing the focus on the Fair Work Commission's decision which is due in June and effective 1 July. This level of increase would be much larger than the range over the past decade (1.8-3.5%) although with the exception of 2020 (Covid) these were all above the current inflation rate.
- The FWC decision is important - not just for the direct impact on wages (with ~20% of jobs directly linked) but also for the impact on wage expectations...A significantly higher minimum wage outcome would increase both wage and inflation expectations....

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