The 2017-18 budget update shows an improvement in the deficit forecast for this financial year but predicts lower economic growth and a smaller increase in wages than was expected in the May budget.

The deficit for 2017-18 is now expected to come in at A$23.6 billion, an improvement of A$5.8 billion from the May forecast, according to the Mid-Year Economic and Fiscal Outlook released by Treasurer Scott Morrison and Finance Minister Mathias Cormann.

Growth for this financial year is forecast to be 2.5% compared with the budget's 2.75%, reflecting recent lower-than-expected growth in household consumption.

Nevertheless Morrison and Cormann said Australia's growth story "remains a compelling one, and although real GDP growth has been slightly tempered in 2017-18, the trajectory is upward". Real GDP is forecast to grow at 3% in 2018-19, the same as the budget number.

Budget update on wages

The update notes that wage growth "remains low by historical standards in both the public and private sectors and has been more subdued than expected since budget".

Wages are forecast to increase by 2.25% through the year to the June quarter 2018 and 2.75% through the year to the June quarter 2019.

This is 0.25 of a percentage point lower in both years compared with the budget – vindicating the s cepticism that economists expressed about the budget forecast being too optimistic.

The flat wages situation reflects a serious political pressure point for the government, as many people struggle with high power prices and other squeezes on their cost of living.

“Wage growth is forecast to lift as the economy strengthens, inflation picks up and excess capacity in the labour market is reduced,” the update says.

Budget receipts have been revised upwards by about A$3.6 billion in 2017-18 and A$2.8 billion over the forward estimates compared with budget time – driven mainly by company tax and superannuation tax. The company tax forecasts reflect increased profitability and enforcement activity by the Australian Taxation Office.

But “over the forward estimates, lower forecasts for wages and unincorporated business income are expected to weigh on individuals’ income tax receipts,” the update says.

The half yearly revised numbers confirm that the budget is on track to have a surplus in 2020-21. The projected surplus of A$10.2 billion in that year is A$2.7 billion better than estimated in May.

Savings measures on education and welfare

The government has announced in the update a new welfare crackdown to save money and also an alternative higher education savings package after it could not pass its earlier proposals.

Savings of A$1.2 billion over four years will be reaped by broadening the criteria for waiting periods for new migrants before they can get various welfare benefits.

The changes will extend the present two-year waiting period for a range of payments, such as Newstart, to three years, and introduce a consistent new three-year waiting period to apply to a further number of benefits such as Family Tax Benefit and Paid Parental Leave.

Social Services Minister Christian Porter said the measures “will reinforce the foundational principle that Australians’ expectation of newly arrived migrants is that they contribute socially and economically for a reasonable period before having access to our nation’s generous welfare system”.

The higher education package includes a freeze on total Commonwealth Grant Scheme funding from January 1, set at 2017 levels, and a combined limit for all tuition fee assistance under all HELP and VET Student Loans.

The government will also pursue an alternative set of HELP repayment thresholds from July 1 next year, with a new minimum repayment threshold of A$45,000, higher than the A$42,000 in the original plan. At present the threshold is A$55,000.

Most of the new higher education package doesn’t have to be legislated, thus avoiding the Senate hurdle. The previous higher education package was set to save A$2.7 billion over the forward estimates; the new one saves A$2.1 billion.

Real growth in payments over the budget period is expected to be an annual average of 1.9%. Compared with the budget, nominal payments are lower in every year of the forward estimates.

The payment to GDP ratio is expected to fall to 24.9% of GDP by 2020, slightly above the 30 year historical average.

Morrison told a joint news conference with Cormann: “As we push into the new year, there is still more work to be done but we are on the right track.

"Jobs and growth will continue to be our mission and our focus. Helping the lives of the thousands of Australians, millions of Australians, and their families and returning the budget back to balance.”

Cormann said: “This is a good set of numbers in all of the circumstances.”

Shadow treasurer Chris Bowen said the government remained committed to increasing the tax paid by working Australians. He said there was no mention of personal tax cuts – which Malcolm Turnbull has foreshadowed – in the update. People only got a tax rise.

He condemned the revised higher education package, saying it would particularly hit those from a lower socioeconomic background.

The chair of Universities Australia, Professor Margaret Gardner, said the package would leave university funding “frozen in time”. She said the blow would be hardest in areas where university attainment was lowest, such as regional areas.

The Business Council of Australia said the budget update showed “welcome signs of improvement but it also signals the key role the business community will pay to strengthen the budget in the future”.

BCA chief executive Jennifer Westacott said business needed to be given the right environment to grow, including a competitive tax rate and a highly skilled workforce. “Delivering the remainder of the government’s plan for a reduced company tax rate has to be the starting point,” she said.

The Australian Industry Group’s chief executive Innes Willox said the improved budget position provided “room for modest and targeted tax relief for low and middle-income households”.

The Australian Council of Social Service said the improved economic outlook “has been overshadowed by further cruel cuts to vital social security payments for some of the most disadvantaged groups in our community”.

Michelle Grattan does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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