

SENSITIVITY OF FISCAL AGGREGATES TO ECONOMIC DEVELOPMENTS

Table 18 provides a guide to the sensitivity of the forward estimates of expenses and revenue to variations in economic parameters in 2003–04. It is important to note that the sensitivity analysis gives only a ‘rule of thumb’ indication of the impact on the budget of changes in prices, wages and other parameters. In each case the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

Table 18: Sensitivity of financial aggregates to changes in economic parameters

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Expenses				
Prices	970	540	790	820
Wages	0	290	400	410
Unemployment benefit recipients	140	280	290	280
Safety net adjustments	0	50	110	180
Revenue				
Prices	10	110	110	110
Wages	750	1,610	1,720	1,840
Employment	510	1,250	1,490	1,460
Private final demand	130	270	280	290
Profit	80	270	280	300

Expenses

On the expenses side, the sensitivity analysis of the estimates provides for the following assumptions about changes to four broad groups of parameters. An increase in any of the parameters considered will lead to an increase in expenses, and a decrease in any parameter will lead to a reduction in expenses.

Prices

All price deflators are assumed to change by one percentage point at the start of the March quarter 2004, with wage deflators left unchanged.

- The effect of a change in prices is due to the indexation of Australian Government expenses and a change in the nominal superannuation interest expense.

Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the March quarter 2004, with price deflators left unchanged.

- The effect of a change in wage and salary growth rates is largely due to the Government's commitment to maintain selected pensions at 25 per cent of Male Total Average Weekly Earnings. The wages effect in Table 18 above does not include changes to wage and salary payments in Australian Government departmental expenses.

Unemployment Benefit Recipients (includes Newstart Allowance and unemployed Youth Allowance recipients)

The total number of recipients is assumed to change by 2.5 per cent in the Budget year and by 5 per cent in all the forward years.

Safety Net Adjustment

The Safety Net Adjustment (SNA) determined by the Australian Industrial Relations Commission (AIRC) is assumed to change by \$2 per week, taking effect from the beginning of the March quarter 2004, and each year after that.

- About \$45 billion of expenses, comprising agency departmental expenses, other Commonwealth Own Purpose Expenses and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in the CPI and the SNA.

Revenue

On the revenue side, the sensitivity analysis of the estimates provides for the following assumptions about changes to five broad groups of parameters. An increase in any of the parameters considered will lead to an increase in revenue, and a decrease in any of the parameters will lead to a reduction in revenue.

Prices

All price deflators are assumed to change by one percentage point at the start of the March quarter 2004, with wage deflators left unchanged.

- A change in prices affects revenue primarily through changes in other excise collections.

Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the March quarter 2004, with price deflators left unchanged.

- A change in wage and salary growth rates affects revenue through changes in gross income tax withholding and fringe benefits tax collections.

Employment

The level of employment is assumed to change by one percentage point from the beginning of the March quarter 2004, with no change in the composition of employment.

- A change in employment affects revenue through changes in gross income tax withholding collections.

Private final demand

The level of private final demand (consumption plus investment) is assumed to change by one percentage point from the beginning of the March quarter 2004, with no change in the composition of demand.

- A change in private final demand affects revenue primarily through changes in excise and customs duty collections.

Profits

The level of company profits is assumed to change by one percentage point from the beginning of the March quarter 2004.

- A change in the level of company profits affects revenue through changes in company tax collections.