

SENSITIVITY OF FISCAL EXPENSES AND REVENUE TO ECONOMIC DEVELOPMENTS

A guide to the sensitivity of the forward estimates of expenses and revenue due to variations in economic parameters in 2006-07 is provided in Table 18. 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 fiscal expenses and revenue to changes in economic parameters

	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m
Expenses				
Prices(a)	370	480	630	620
Wages	0	320	500	520
Federal Minimum Wage decision	0	90	170	240
Unemployment benefit recipients	120	240	250	260
Revenue				
Prices	20	130	150	150
Wages	870	1,770	1,790	1,910
Employment	840	1,710	1,720	1,840
Private final demand	100	290	300	310
Profits	120	460	500	540

(a) A change in the methodology used to estimate liabilities under the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme means these estimates are now less sensitive to short-term changes in the CPI, compared to the estimates shown in previous MYEFO documents.

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 of the parameters will lead to a reduction in expenses.

Prices

All price growth rates are assumed to change by one percentage point in the March quarter 2007 and to remain unchanged subsequently, with all wage and salary growth rates left unchanged through the Budget and forward years.

- The effect of a change in prices is due to the indexation of Australian Government expenses (which impacts more in the forward years than the Budget year) and a one-off impact on the liabilities of the military superannuation schemes in 2006-07 (which in turn impacts on the defence superannuation interest expense).

Wages

All wage and salary growth rates are assumed to change by one percentage point in the March quarter 2007 and to remain unchanged subsequently, with all price growth rates left unchanged through the Budget and forward years.

- The effect of a change in wage and salary growth rates is largely due to the Government's commitment to maintain selected pensions at a minimum of 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.

The Federal Minimum Wage decision

The Federal Minimum Wage increase determined by the Australian Fair Pay Commission (AFPC) is assumed to be \$2 per week higher in the Budget year and all forward years.

- Around \$60 billion of expenses in 2006-07, comprising agency departmental expenses, other Australian Government Own Purpose Expenses and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in the Consumer Price Index and the Federal Minimum Wage decision.

Unemployment Benefit Recipients (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.

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 2007, with wage deflators left unchanged.

Part 3: Fiscal outlook

- A change in prices affects revenue primarily through changes in excise revenue and petroleum resource rent tax.

Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the March quarter 2007, 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.

Employment

The level of employment is assumed to change by one percentage point from the beginning of the March quarter 2007, with no change in the composition of employment.

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

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 2007, 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 2007.

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