

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 2005-06 is provided in Table 17. 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 17: Sensitivity of fiscal expenses and revenue to changes in economic parameters

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Expenses				
Prices	950	650	980	940
Wages	0	340	500	530
Unemployment benefit recipients	130	260	260	270
Revenue				
Prices	10	120	130	140
Wages	800	1,750	1,870	2,010
Employment	530	1,160	1,240	1,340
Private final demand	130	290	300	310
Profit	160	550	590	630

EXPENSES

On the expenses side, the sensitivity analysis of the estimates provides for the following assumptions about changes to three 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 2006 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 and a large one-off impact on superannuation liabilities in 2005-06 (which in turn impacts on the superannuation interest expense).

Wages

All wage and salary growth rates are assumed to change by one percentage point in the March quarter 2006 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 17 above does not include changes to wage and salary payments in Australian Government departmental expenses.

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 2006, with wage deflators left unchanged.

- 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 2006, 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 2006, with no change in the composition of employment.

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- 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 2006, 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 2006.

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