

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 2007-08 is provided in Table 19. 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 19: Sensitivity of fiscal expenses and revenue to changes in economic parameters

	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Expenses				
Prices	500	720	920	940
Wages	0	340	550	570
Federal Minimum Wage decision	0	100	170	270
Unemployment benefit recipients	120	250	270	270
Revenue				
Prices	20	150	160	170
Wages	1,010	2,080	2,100	2,240
Employment	970	1,980	2,000	2,130
Private final demand	130	300	310	320
Profits	180	780	870	880

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 2008 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 military superannuation liabilities in 2007-08 (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 2008 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. This effect on pensions is smaller in the budget year than in each of the forward years due to the timing of adjustments to pension rates. The wages effect in Table 19 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) in July each year remains unchanged in the budget year and is assumed to be \$2 per week higher in all forward years.

- Around \$65 billion of expenses in 2007-08, 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 and world oil prices are assumed to change by one percentage point at the start of the March quarter 2008, with no change in wage deflators.

- 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 2008, with no change in the price deflators.

- A change in wage and salary growth affects revenue through changes in gross income tax withholding, individuals' refunds, superannuation funds and fringe benefits tax revenue.

Employment

The level of employment is assumed to change by one percentage point from the beginning of the March quarter 2008, with no change in the composition of employment.

- A change in employment affects revenue primarily through changes in gross income tax withholding and superannuation fund revenue, and individuals' refunds.

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 2008, with no change in the composition of private final demand.

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

Profits

The level of profits is assumed to change by one percentage point from the beginning of the March quarter 2008.

- A change in the level of profits affects revenue through changes in taxes on companies and other individuals.