Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 29, 30 & 31 May 2007

Question: bet 85

Topic: IGR 2 – Productivity Forecast Growth

Hansard Page: E33-35

Senator SHERRY asked:

Can you just confirm that the figure in the last *IGR* was 1.7?

Dr Gruen—It was 1.75 per cent. The figure for the projection period in this *IGR* is also 1.75 per cent. However, we do not override the forecasts in the budget. In the years in which we provide a forecast in the budget, we use whatever labour productivity growth is forecast for the forecast years. That was also true for the previous *IGR*. In other words, for the previous *IGR* the forecast was for the 40 years, and the first two years came from the budget. They were the budget forecast years.

Senator SHERRY—Which were?

Dr Gruen—It was 2000—

Senator SHERRY—No, the figure for the first two budget years.

Dr Gruen—I can take that on notice, but we do not actually publish the labour productivity growth numbers in the budget.

Senator SHERRY—I had noticed that. You can calculate it indirectly, as Senator Minchin knows.

Senator Minchin—In a very rough and rudimentary fashion.

Senator SHERRY—If you do not publish the figures, we have to make the best calculation we can on what is provided to us, as you know, Senator Minchin.

Senator Minchin—I recall that exchange.

Senator SHERRY—You do not publish it, but I am still seeking an explanation of the 1.5 per cent.

Dr Gruen—The decade of the 2000s includes some history. It includes forecast years from the MYEFO. The *Intergenerational report2007* takes as its base the MYEFO of late last year. It uses the forecast numbers for labour productivity in the relevant years and then, once the projection starts, it uses 1¾ per cent as the labour productivity growth assumption. When you put all of that together over the whole of that decade the outcome is 1.5 per cent to—

Senator SHERRY—In this decade—we are in 2007—we have got some history.

Dr Gruen—Yes. That history is shown in chart 2.17, on the previous page.

Senator SHERRY—What does the history tell us about the figure for the 2005-06 year history period on productivity growth?

Dr Gruen—I think the answer is 1½ per cent. I can certainly take it on notice and give you the answer for the productivity growth over that period, but I think the answer is 1½ . Do you still want that number?

Senator SHERRY—Yes, if you have got it.

Dr Gruen—I do. You can read it off the graph, and it is approximately 1½ per cent, but I am happy to give you the exact number.

Senator SHERRY—It would be preferable to have the exact number reading off the graph. I have some questions on trying to identify some figures off a graph.

…

Senator SHERRY—I think we left it just before lunch with those two years of productivity figures. Can you enlighten us?

Dr Gruen—Sorry?

Senator SHERRY—The estimated figures?

Dr Gruen—We do not publish those figures.

Senator SHERRY—I knew that. I want you to get them for me.

Dr Gruen—I am happy to take the question on notice.

Answer:

The productivity measure used in the Intergenerational Reports is economy-wide labour productivity, which is measured by GDP per hour worked. It covers both market and non-market sector industries and, hence, differs from market sector average labour productivity. The market sector includes those industries in which the volume of output can be measured independently from the inputs into production.

In the second IGR (IGR 2007), economy-wide labour productivity was projected to grow at an average annual rate of 1.5 per cent over 2000-01 to 2009-10. This projection was based on:

- actual estimates of labour productivity growth for 2000-01 to 2005-06;
- forecasts of labour productivity growth for 2006-07 and 2007-08 consistent with the *Mid-Year Economic and Fiscal Outlook* (MYEFO) 2006-07; and
- labour productivity growth of 1¾ per cent per annum in 2008-09 and 2009-10, which is the productivity assumption for the projection years in the 2006-07 MYEFO, as well as the long-term productivity assumption in IGR 2007.