

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 2 June – 4 June 2009

Question: bet 52

Topic: 2007 Intergenerational Report

Hansard Page: E9

Senator Coonan asked:

Senator COONAN—In your answers, Dr Gruen—I imagine the answer to this is yes—you have told us all the assumptions that have been built into the above-trend growth projections?

Dr Gruen—Yes, and I might say that the unemployment rate was in the low sixes, I think, when the first intergenerational report was written, and we assumed a full employment level of five. We had to have the unemployment rate track down to five in that report as well. The gap is bigger this time, but the approach is—

Senator COONAN—The methodology, yes. You have obviously done a lot of modelling or analysis of this. Are we able to have access to any of it?

Dr Gruen—I guess I will take that on notice.

Answer:

The methodology for the forward estimates and medium term projections is based on supply side modelling. The growth projections are built up from the contribution of population growth, the participation rate, the unemployment rate and productivity growth.

The contribution from population growth is modelled using demographic trends and assumed net immigration profiles, initially making a strong contribution and then moderating in line with demographic trends. The participation rate makes a negative contribution during the period of below-trend activity, and then grows above trend as the economy recovers, consistent with historical evidence.

The unemployment rate makes a large negative contribution to GDP growth during the period of below-trend activity, and then makes a positive contribution to growth as the economy strengthens. The profile is consistent with the pace of the mid-1980s and mid-1990s recoveries. Once the NAIRU (assumed to be 5 per cent) is reached the unemployment rate makes no further contribution to growth.

Productivity growth makes an above-average contribution to GDP growth during the recovery, as is typically the case, and then reverts to its long-run average of 1½ per cent.

The methodology is outlined in Appendix B in Budget Statement 3, page 3-23. The detailed numbers underpinning the GDP estimates, sourced from a speech by Secretary Henry to the Australian Business Economists on 19 May 2009, are reproduced below.

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Contributions to GDP growth (year-average per cent)

	2008-09	Forward estimates				Medium-term projections			
		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Real GDP	0	- 1/2	2 1/4	4 1/2	4 1/2	4	4	4	4
Contributions									
Population	1 3/4	1 3/4	1 3/4	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Participation rate	0	- 3/4	-1	0	0	1/2	1/2	1/2	1/2
Unemployment rate	- 3/4	-2 3/4	-1	1	1	1/2	1/2	1/2	1/2
Productivity	-1	1 1/4	2 1/2	2	2	1 1/2	1 1/2	1 1/2	1 1/2
Nominal GDP	5 3/4	-1 1/2	3 3/4	6 1/4	6 3/4	6 1/4	6 1/4	6 1/4	6 1/4