Affordable tax cuts?

Peter Martin

Budget benefits

Tax benefits by household income range

Q5 = highest earners (top 20%)

Q3 = middle earners (middle 20%)

Q1 = lowest earners (bottom 20%)

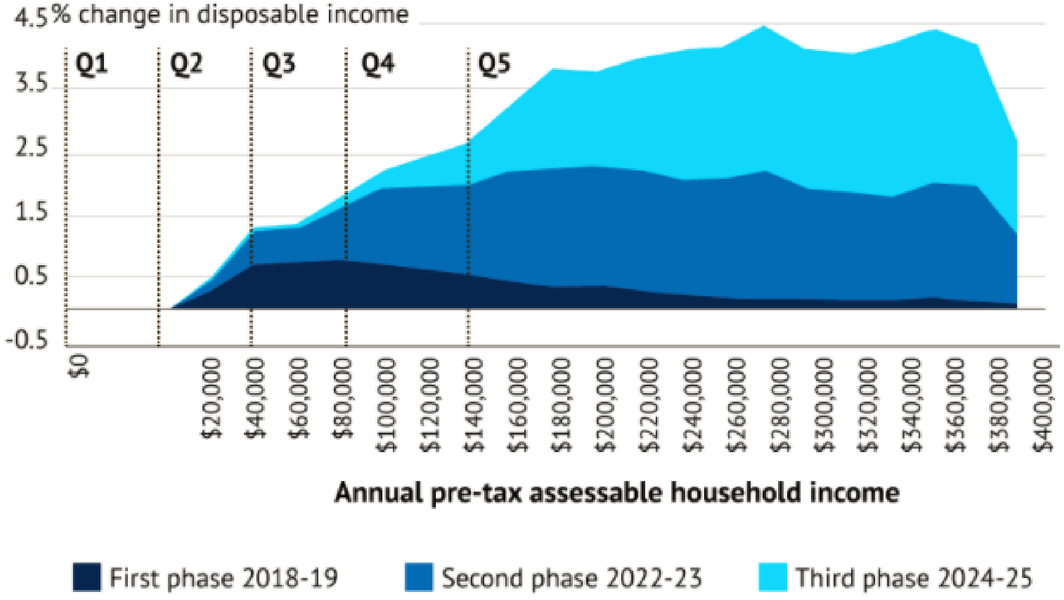


Table 2: Major economic parameters[a]

	Outcomes	Forecasts			Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Real GDP	2.1	2 3/4	3	3	3	3
Employment	1.9	2 3/4	1 1/2	1 1/2	1 1/4	1 1/4
Unemployment rate	5.6	5 1/2	5 1/4	5 1/4	5 1/4	5
Consumer price index	1.9	2	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	1.9	2 1/4	2 3/4	3 1/4	3 1/2	3 1/2
Nominal GDP	5.9	4 1/4	3 3/4	4 3/4	4 1/2	4 1/2

(a) Year average growth unless otherwise stated. From 2016–17 to 2019–20, employment and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through-the-year growth to the June quarter.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

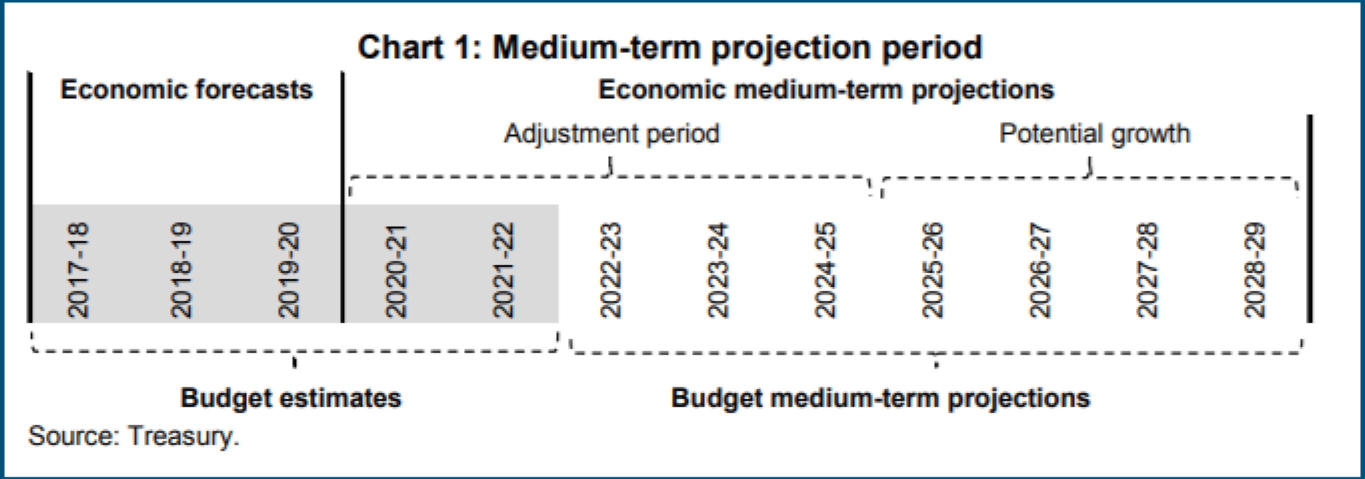


Chart 1: Medium-term projection period
Economic forecasts
Economic medium-term projections
Adjustment period
Potential growth
2017-18
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24
2024-25
2025-26
2026-27
2027-28
2028-29
Budget estimates
Budget medium-term projections
Source: Treasury.

What Treasury really thinks

What Treasury really thinks

Good times for the next two years

What Treasury really thinks

Good times for the next two years

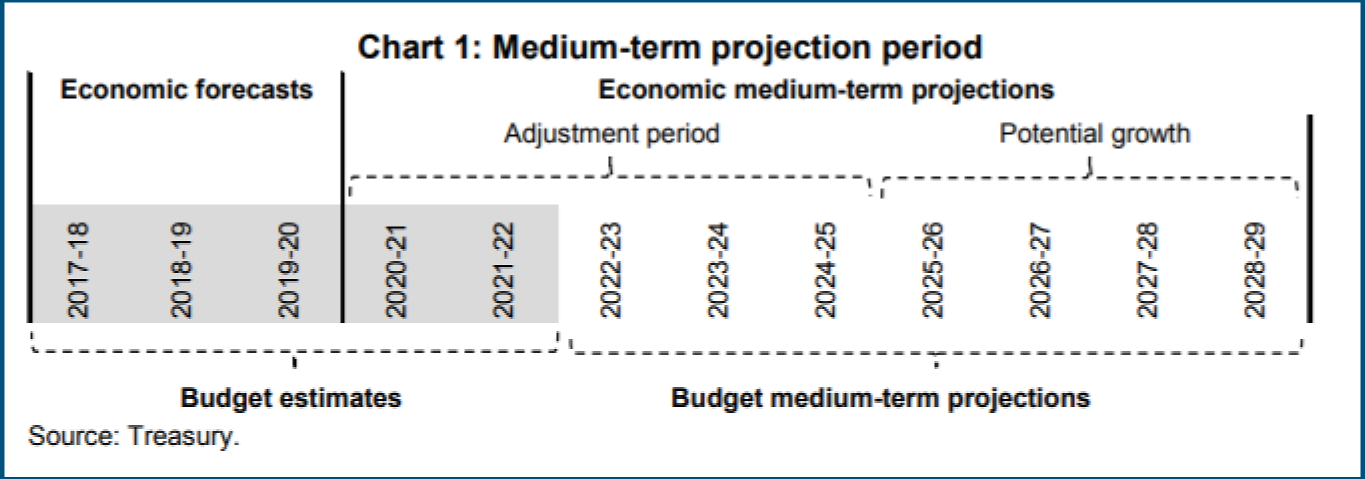
Worse times after that

What Treasury really thinks

Good times for the next two years

Worse times after that

But it doesn’t matter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Source: Treasury.

Nirvana:

Real GDP: 2.85 per cent

CPI: 2.5 per cent

Unemployment rate: 5 per cent

Potential GDP is estimated based on analysis of underlying trends for population, productivity and participation. The Budget forecasts imply that the level of real GDP will be lower than potential GDP at the end of the forecast period — that is, there will be a negative output gap. To close the estimated output gap and absorb forecast spare capacity in the economy, real GDP is projected to grow faster than potential over the adjustment period (over the five years from 2020-21). By the end of the adjustment period, the output gap is assumed to have closed completely and real GDP grows at its potential rate thereafter.

The cry for help

The cry for help

The medium-term projection methodology, as outlined in the 2014-15 Budget, assumes that spare capacity in the economy is absorbed over five years following the forecast period. This is a well-established approach but it is not without drawbacks. The sensitivity of the projections to different adjustment periods is presented in Budget Statement 8.

Spending

Spending

2 per cent

Spending

2 per cent

2.7 per cent

Spending

2 per cent

2.7 per cent

3.1 per cent

Spending

2 per cent

2.7 per cent

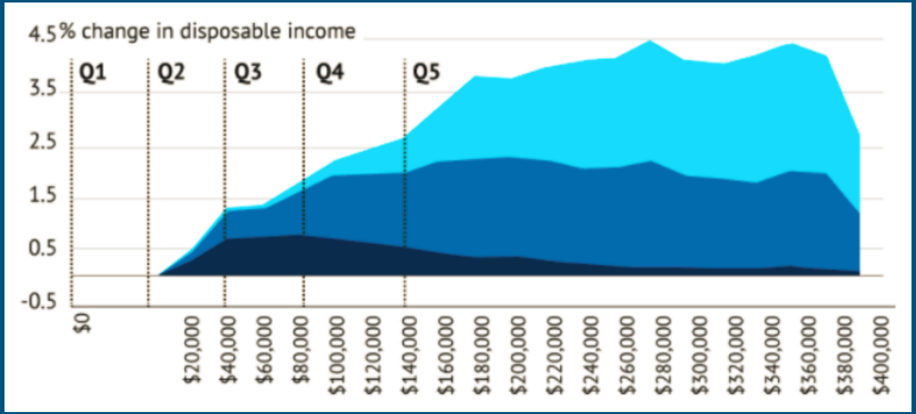
3.1 per cent

1.1 per cent

1.1 per cent

1.1 per cent

Thanks.



% change in disposable income
4.5
3.5
2.5
1.5
0.5
-0.5
Q1
Q2
Q3
Q4
Q5
$0
$20,000
$40,000
$60,000
$80,000
$100,000
$120,000
$140,000
$160,000
$180,000
$200,000
$220,000
$240,000
$260,000
$280,000
$300,000
$320,000
$340,000
$360,000
$380,000
$400,000