- We have lowered the long-run growth assumption for trend productivity to 1.2 per cent per annum from 1.5 per cent per annum in PEFO. By the end of 2032-33, this lowers forecast GDP by around 3.1 per cent.

s 22

s 22

PRODUCTIVITY

What did you assume for productivity growth?

- The current assumption for long-run productivity growth is 1.2 per cent per year.
- This is in line with the 20-year average growth rate.

How does this compare to current productivity growth?

- Labour productivity growth was 1.2 per cent over 2020-21. This is in line with the 1.2 per cent assumption, which reflects the current 20-year average for labour productivity.

Why did you make that assumption?

- The last Budget and IGR released by the previous government last year, assumed long-term productivity growth would be at 1.5 per cent a year.
- This is well above rates of productivity growth over the five years before the pandemic [when the growth rate was more indicative of longer-term structural trends vs since the pandemic]
- The first step in addressing our long-term economic challenges is acknowledging them.
- If something has been the way it has for years, just putting a different number in a Budget book doesn't mean it will get bigger or go higher.

BACKGROUND:

- The PEFO assumption of 1.5 per cent is based on a 30-year average which includes the 1990s where Australia experienced exceptionally strong productivity growth.
- Since the mid-2000s there has been a global slowdown in productivity growth and international agencies have lowered their forecasts in response.
- Using the 20-year average of 1.2 per cent is more realistic.

What's the impact of lower productivity growth?

- Lowering the productivity growth assumption to average 1.2 per cent over the medium term, rather than the 1.5 per cent previously assumed, will lower real GDP growth.
- Compared to the latest Treasury forecasts (PEFO) the real level of GDP at the end of 2032-33 would be around 1¾ per cent smaller, with the difference increasing over time.
- Gross debt to GDP would be around 2 percentage points higher as at 30 June 2033.

- The Underlying Cash Balance as a share of GDP is projected to be 0.3 percentage points lower by the end of the medium term.
- The impact on UCB and debt would continue to increase over time.

s 22

[redacted]

FOI 3174
Document 3

Table A1. Economic assumptions for agreement

Assumption	Impact of change to assumption
Underlying labour productivity is assumed to converge to the average growth rate in labour productivity over the past 20 years of 1.2 per cent per annum.	All else equal this will lower potential GDP growth and revenues. Impact over the forward estimates is small but growing over the medium-term. A more significant impact will be evident over the IGR period as it compounds out to 2060. The previous IGR estimated real GDP to be around 9.5 per cent lower by 2060-61, s 22 [redacted] and net debt to be 22.7 percentage points higher by 2060-61.

s 22
[redacted]

FOI 3174
Document 4

Productivity

KEY MESSAGE

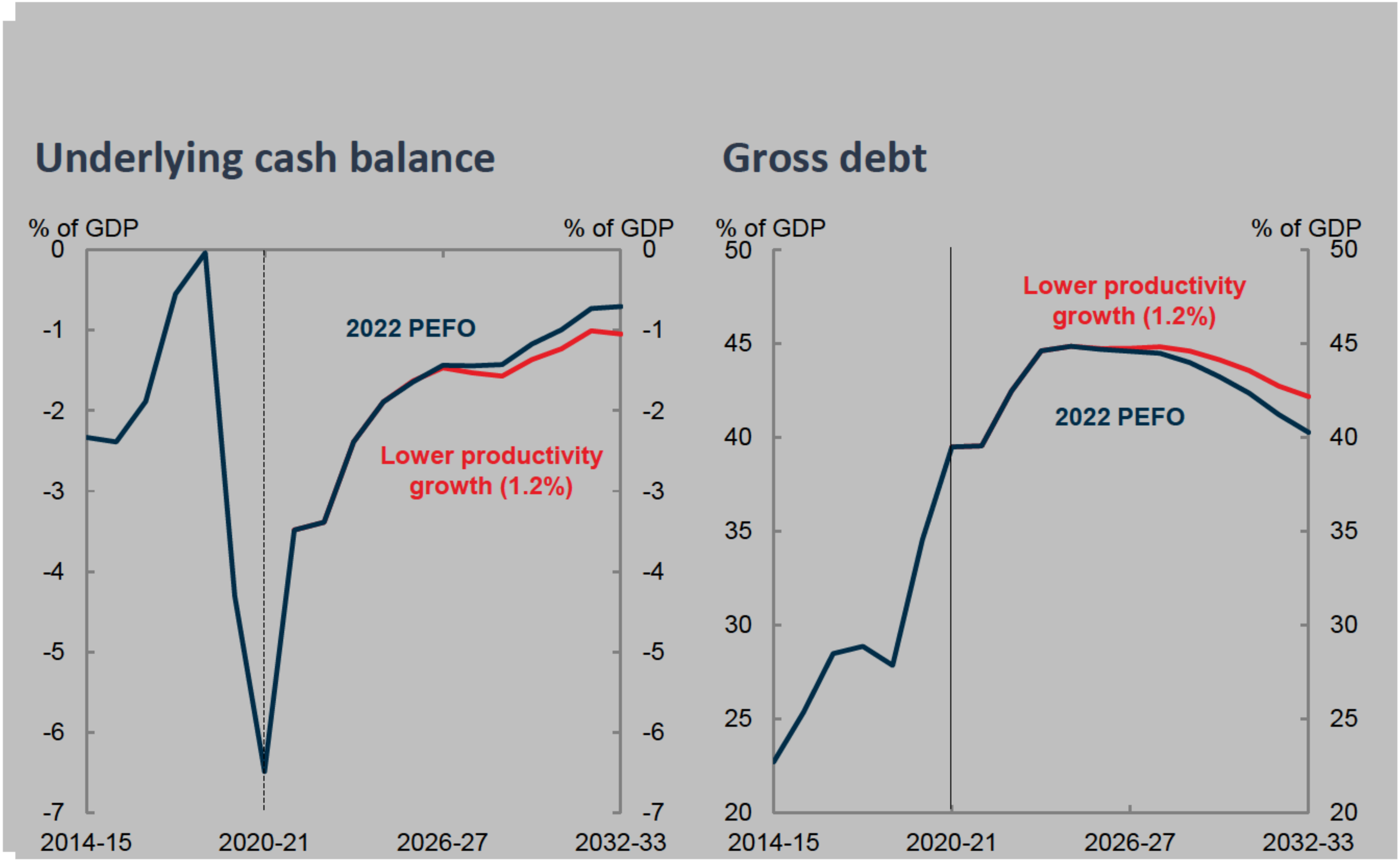
s 22 [redacted]

- s 22 [redacted] For example, analysis in the 2021 Intergenerational Report (IGR) showed that if productivity growth averaged 1.2 per cent over the medium term, rather than the 1.5 per cent assumed, GDP growth would be lower and gross debt to GDP higher.

s 22 [redacted]

Office Responsible	Treasurer - The Hon Jim Chalmers MP	**Adviser**	s 22 [redacted]
Contact Officer	s 22 [redacted]	**Contact Number**	s 22 [redacted]
Division responsible	Macroeconomic Analysis and Policy Division		
Date of Update	03 August 2022		

Impact of lower productivity assumption

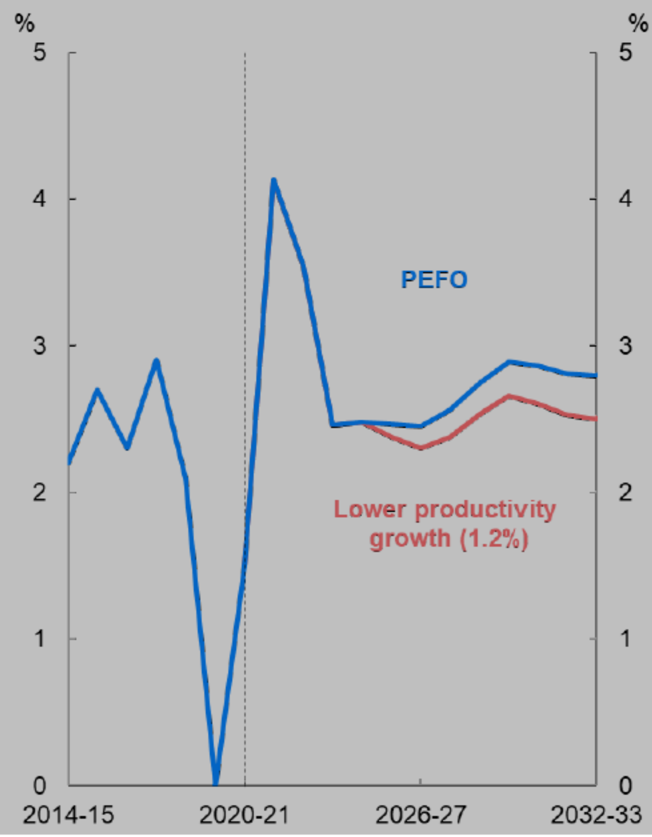


Note: The impact of lower productivity growth is based on scenarios results presented in the 2021 IGR.

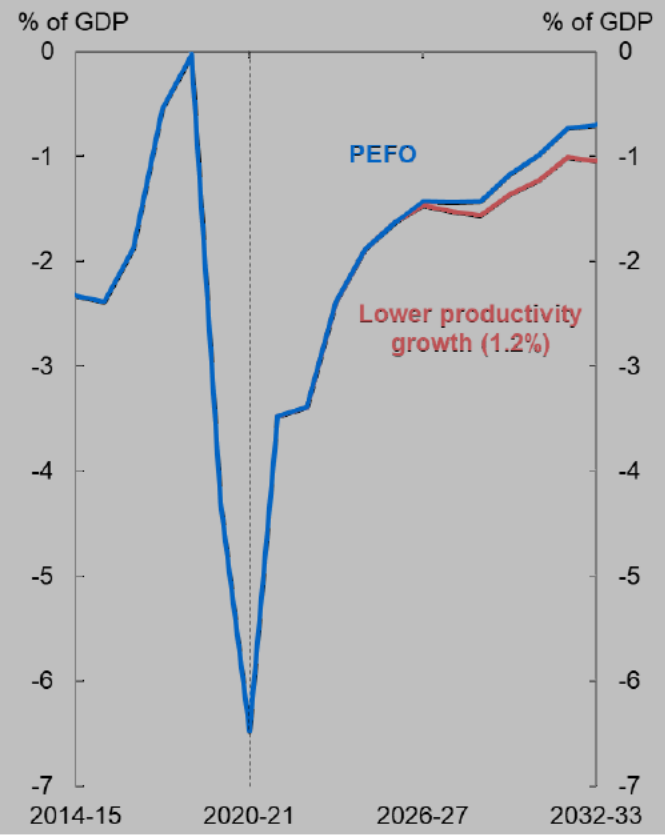
Productivity

FOI 3174
Document 7

Impact on real GDP growth



Impact on UCB



Underlying cash balance

FOI 3174
Document 8

s 22

Note: Change to productivity assumption is expected to have a growing impact on UCB over the medium term, decreasing UCB by around 0.3 percentage points of GDP by 2032-33.

Gross debt

s 22

[redacted]

Note: Change to productivity assumption is expected to have a growing impact on gross debt over the medium term, increasing gross debt by around 2 percentage points of GDP by 2032-33.

FOI 3174
Document 9

s 22 [redacted]

From: s 22 [redacted] @TREASURY.GOV.AU>
Sent: Tuesday, 26 July 2022 1:33 PM
To: s 22 [redacted] @TREASURY.GOV.AU>
Cc: s 22 [redacted] @TREASURY.GOV.AU>
Subject: RE: MS22-001487 - Preliminary Fiscal Outlook Update [SEC=PROTECTED, CAVEAT=SH:CABINET]

Hi s 22 [redacted]

s 22 [redacted]

UCB is projected to be 0.3 percentage points lower by the end of the medium term due to the productivity assumption change. I saw that s 22 [redacted] had asked for this to be included in the Ministerial Statement Q&A so wasn't sure if this was a question or whether you wanted a chart on this in the chart pack too?

s 22 [redacted]

Kind regards,

s 22 [redacted]

s 22 [redacted]
Director
Fiscal Sustainability Unit
Budget Policy Division
The Treasury, Langton Crescent, Parkes ACT 2600
P +61 s 22 [redacted] | **E** s 22 [redacted] @treasury.gov.au