

# 2006/07 Federal Budget

*Presentation for the  
National Tourism Alliance*

*Sponsored by Diageo*

**Economic Analysis of 2006/07 Federal Budget:  
*What does the Budget mean for Australia, the tourism  
industry and you?***

**Chris Murphy, Econtech**



National Tourism Alliance

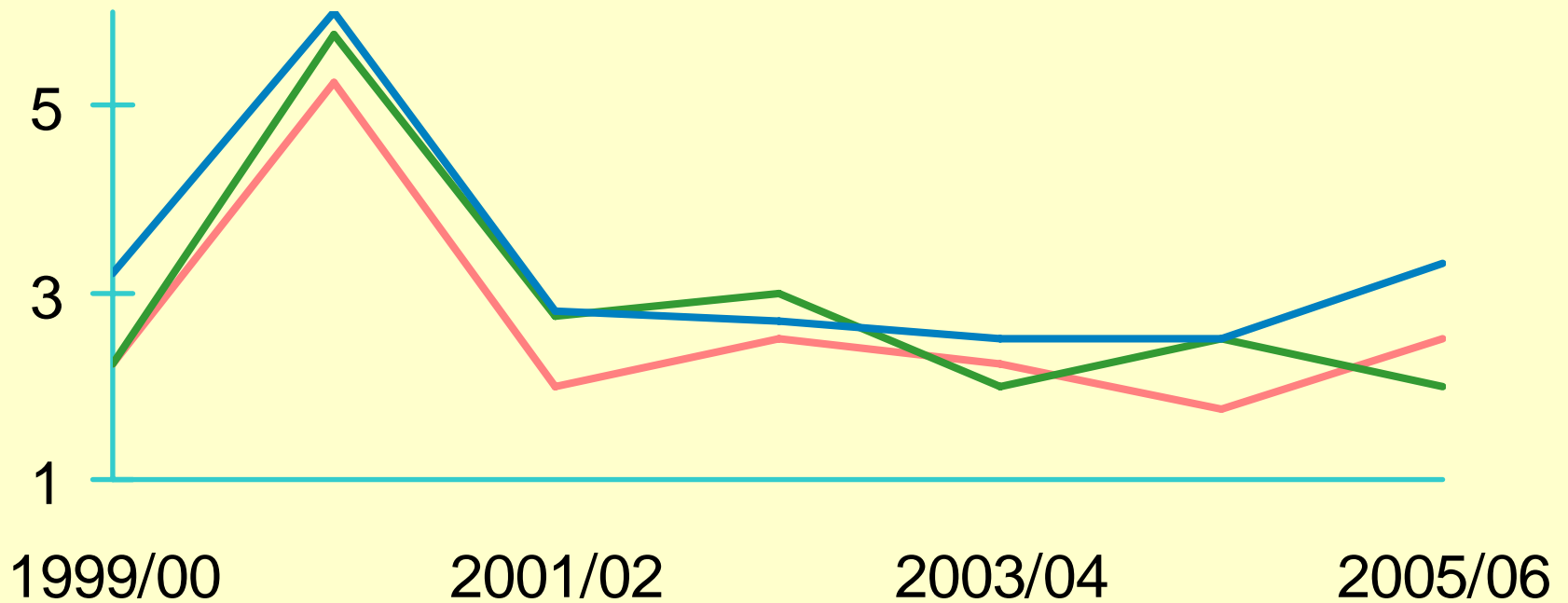
*econ*  
**TECH**

# Outline

- **The Budget**
- Australian economy
- You
- Tourism industry



# The Budget: Track record forecasting CPI



— Budget — Econtech — Actual



# The Budget: Forecasts for 2006/07

	Budget	Econtech prediction
<b>GDP</b>	<b>3 ¼</b>	<b>3 ¼</b>
<b>Household consumption</b>	<b>3</b>	<b>3 ¾</b>
<b>Business investment</b>	<b>8</b>	<b>4</b>
<b>Exports</b>	<b>7</b>	<b>7</b>
<b>Inflation (a)</b>	<b>2 ½</b>	<b>2 ½</b>
<b>Current account</b>	<b>– \$62 ½ bn</b>	<b>– \$68 bn</b>

(a) through the year



# The Budget: Fiscal and cash balance (\$bn)

	06/07	07/08
1. Fiscal balance starting point	23.3	26.1
2. Policy measures (budget and prior)	- 13.0	- 16.2
3. Fiscal balance end point	10.3	9.9
4. Cash balance	10.8	10.6



# The Budget: Major policy measures (\$bn)

	06/07	07/08
up to MYEFO	- 1.4	- 1.2
personal income tax cuts	- 6.6	- 9.4
others since MYEFO	- 5.0	- 5.6
<b>Impact on balance</b>	<b>- 13.0</b>	<b>- 16.2</b>



# Outline

- The Budget
- Australian economy
- You
- Tourism industry



# Australian economy: Budget and monetary policy issues

- What are the effects on the economy of the fiscal stimulus from the budget?
- What are the effects on the economy of the Reserve Bank's hiking of interest rates?
- Address these questions with three scenarios for the Australian economy.
- Generated using Econtech's MM2 model.

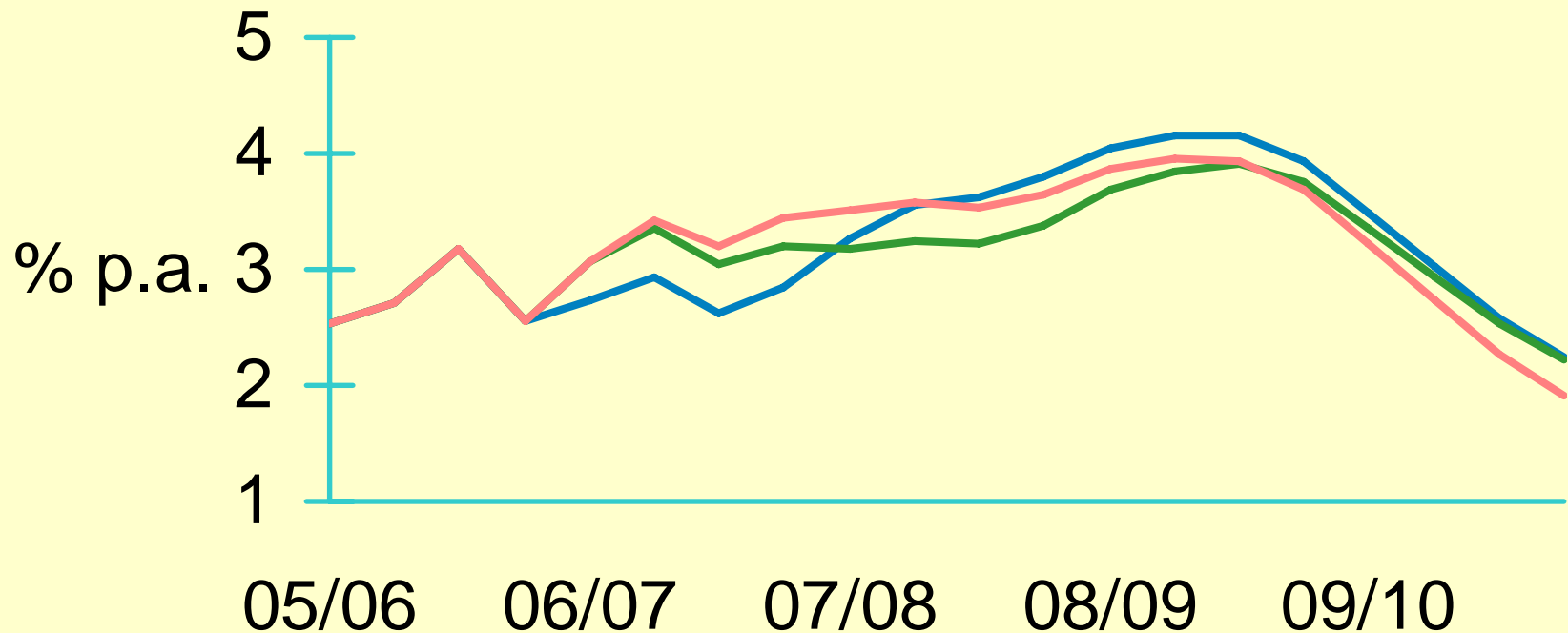


# Australian economy: Three scenarios

- **Before Budget:** before allowing for the Budget
- **Budget:** allows for the Budget, including its tax cuts; assumes further cash rate hike to 6%
- **No rate hikes:** allows for the Budget and assumes Reserve Bank reverses its rate hike i.e. the cash rate drops from 5.75% to 5.5%



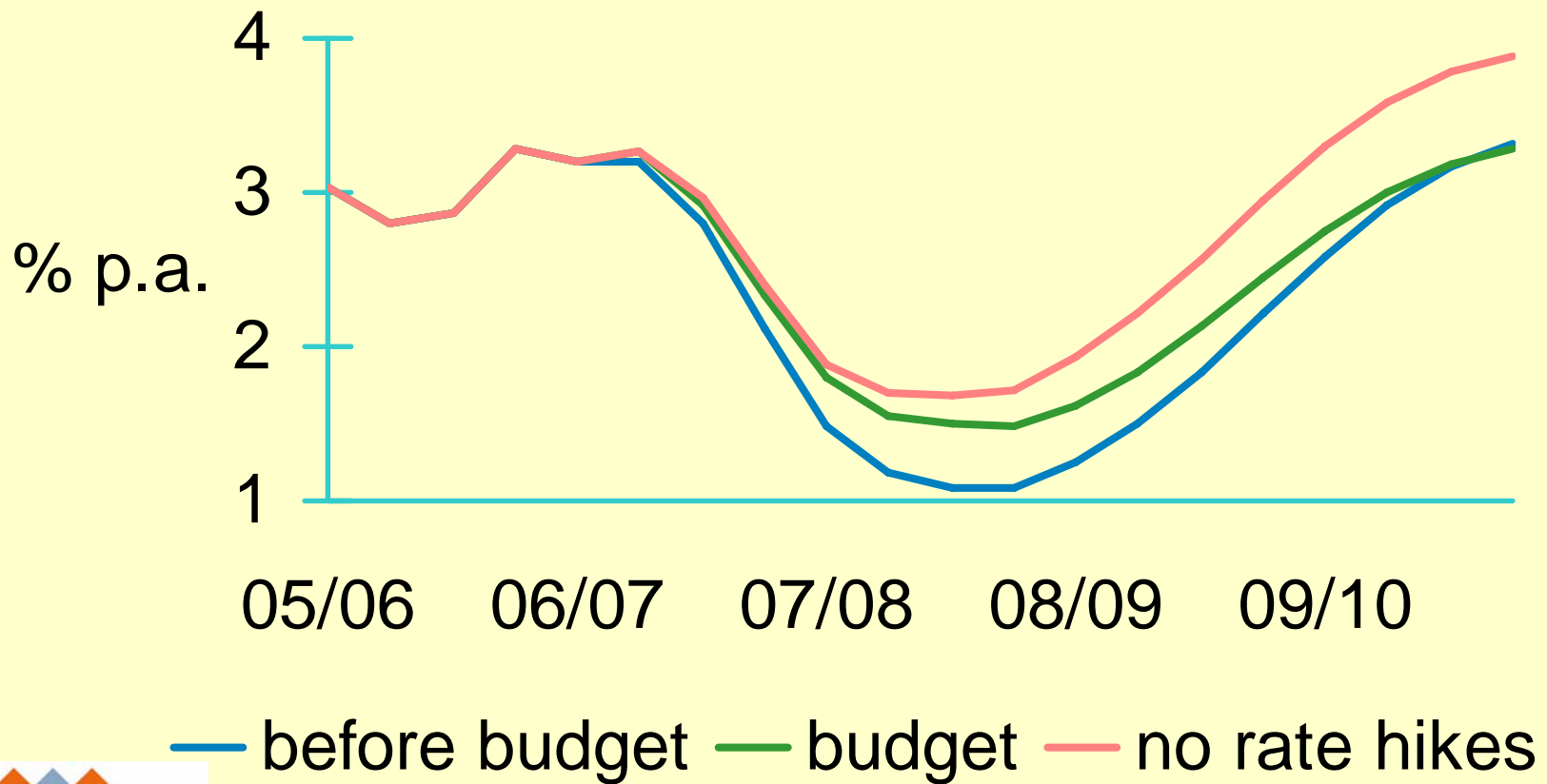
# Australian economy: GDP growth



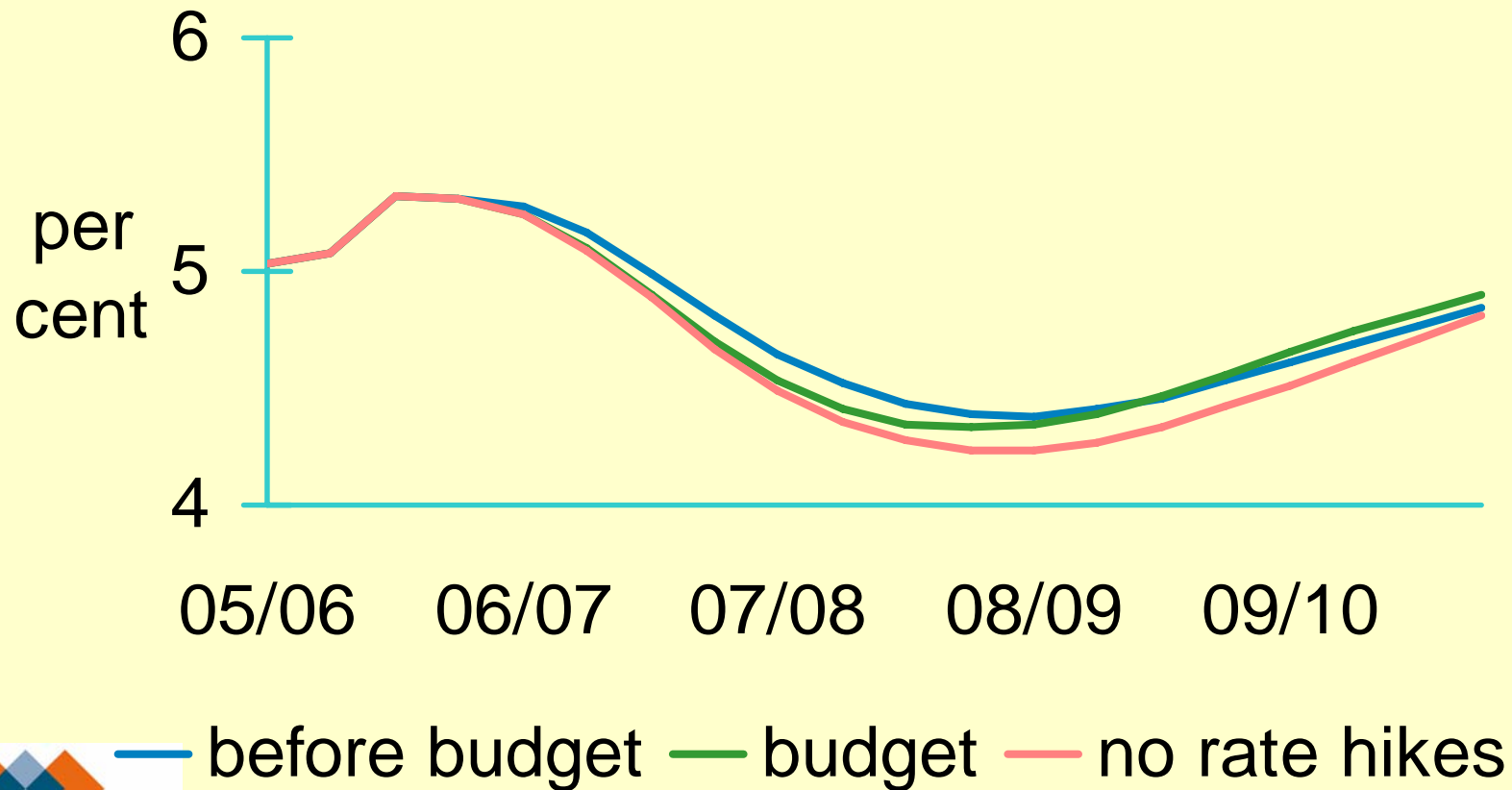
— before budget — budget — no rate hikes



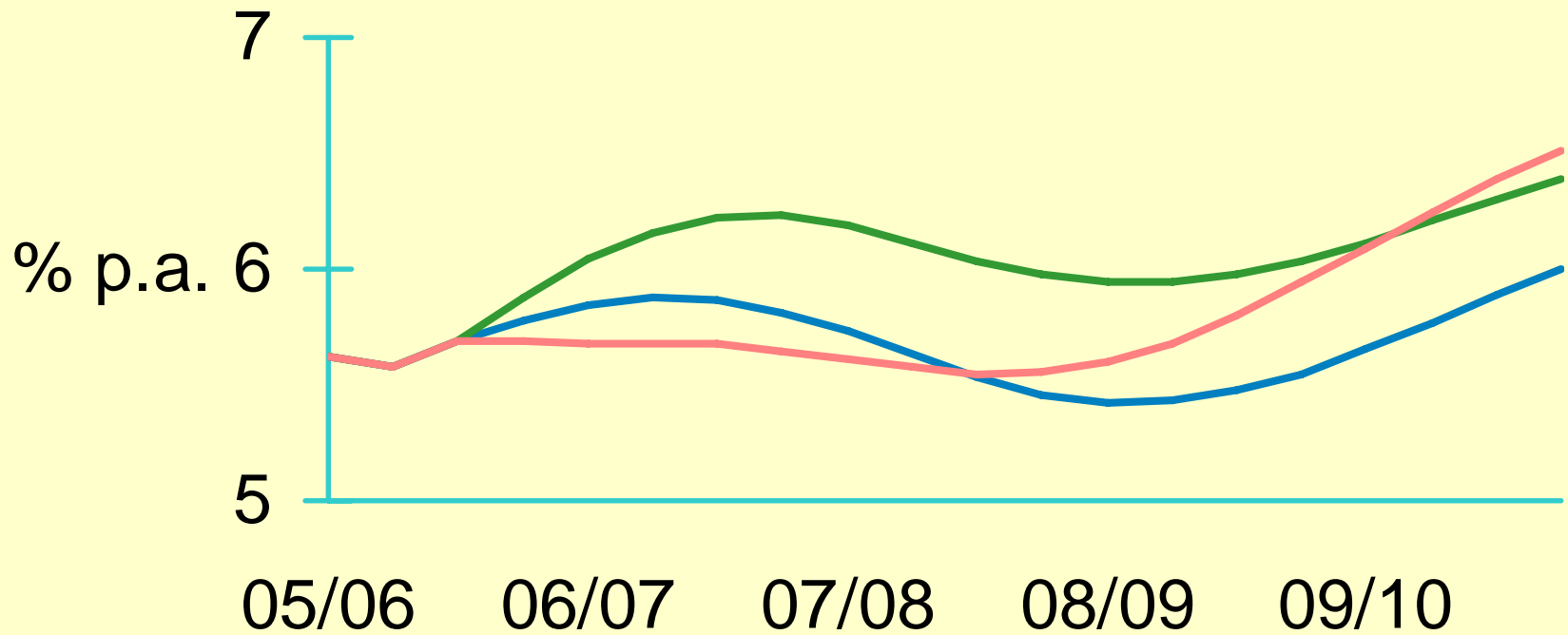
# Australian economy: CPI inflation



# Australian economy: Unemployment rate



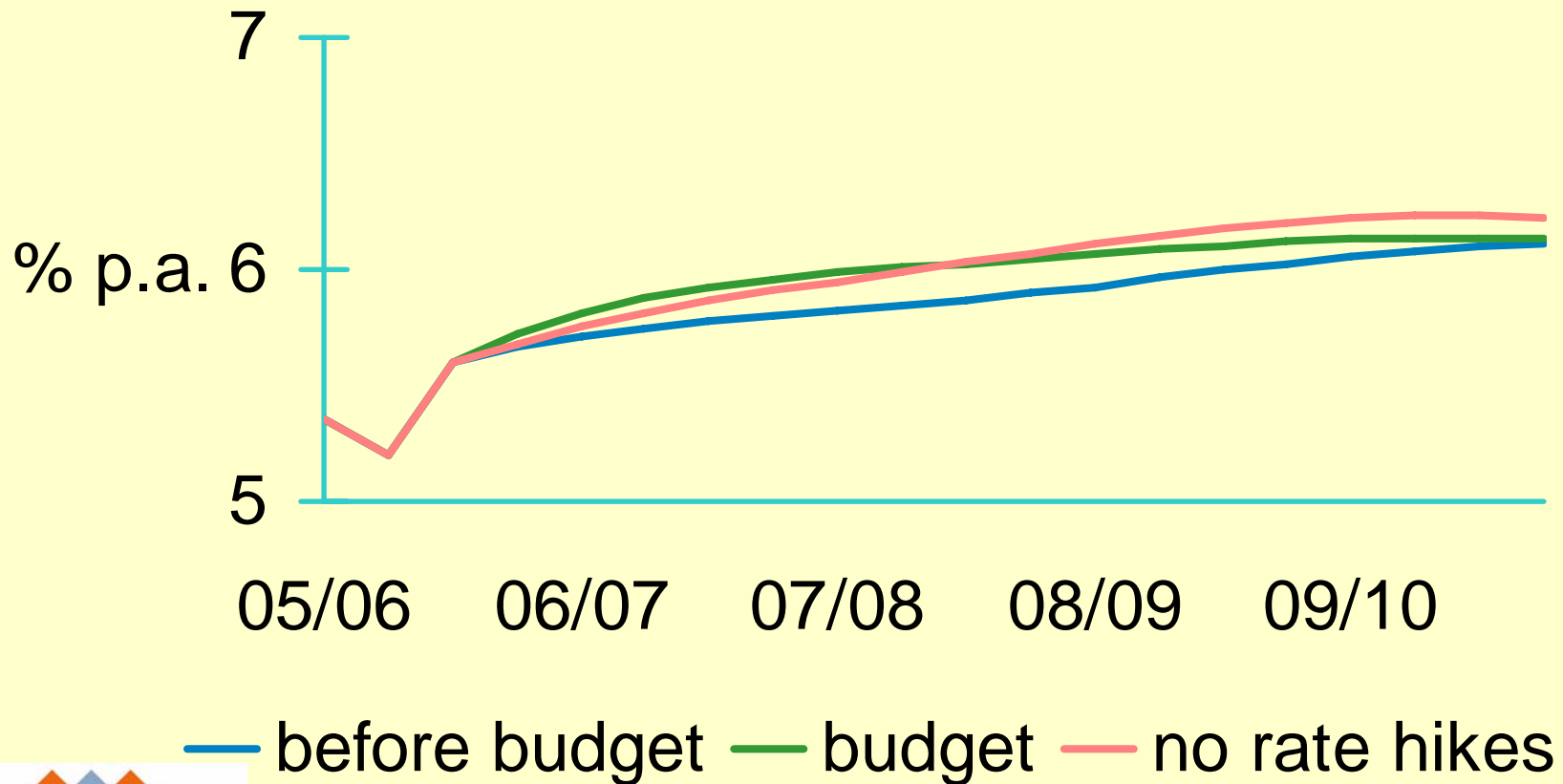
# Australian economy: 90-day bill rate



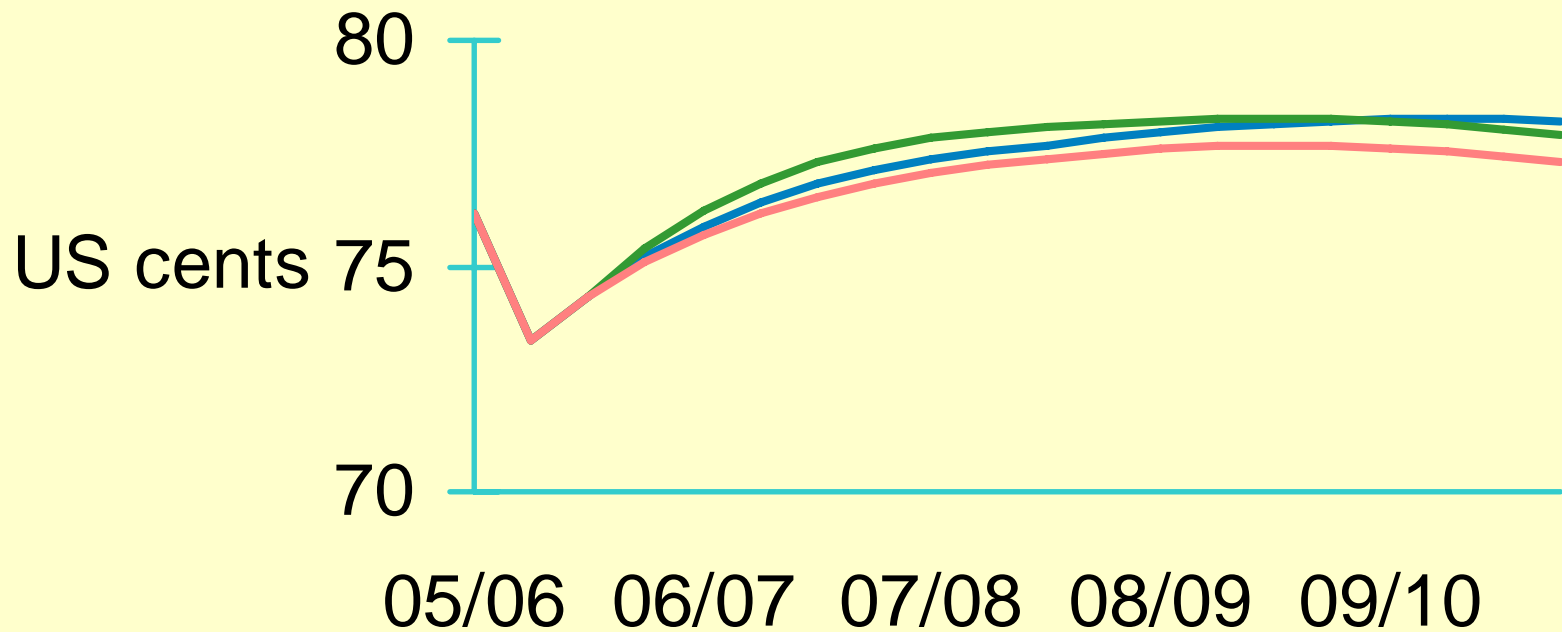
— before budget — budget — no rate hikes



# Australian economy: 10-year bond rate



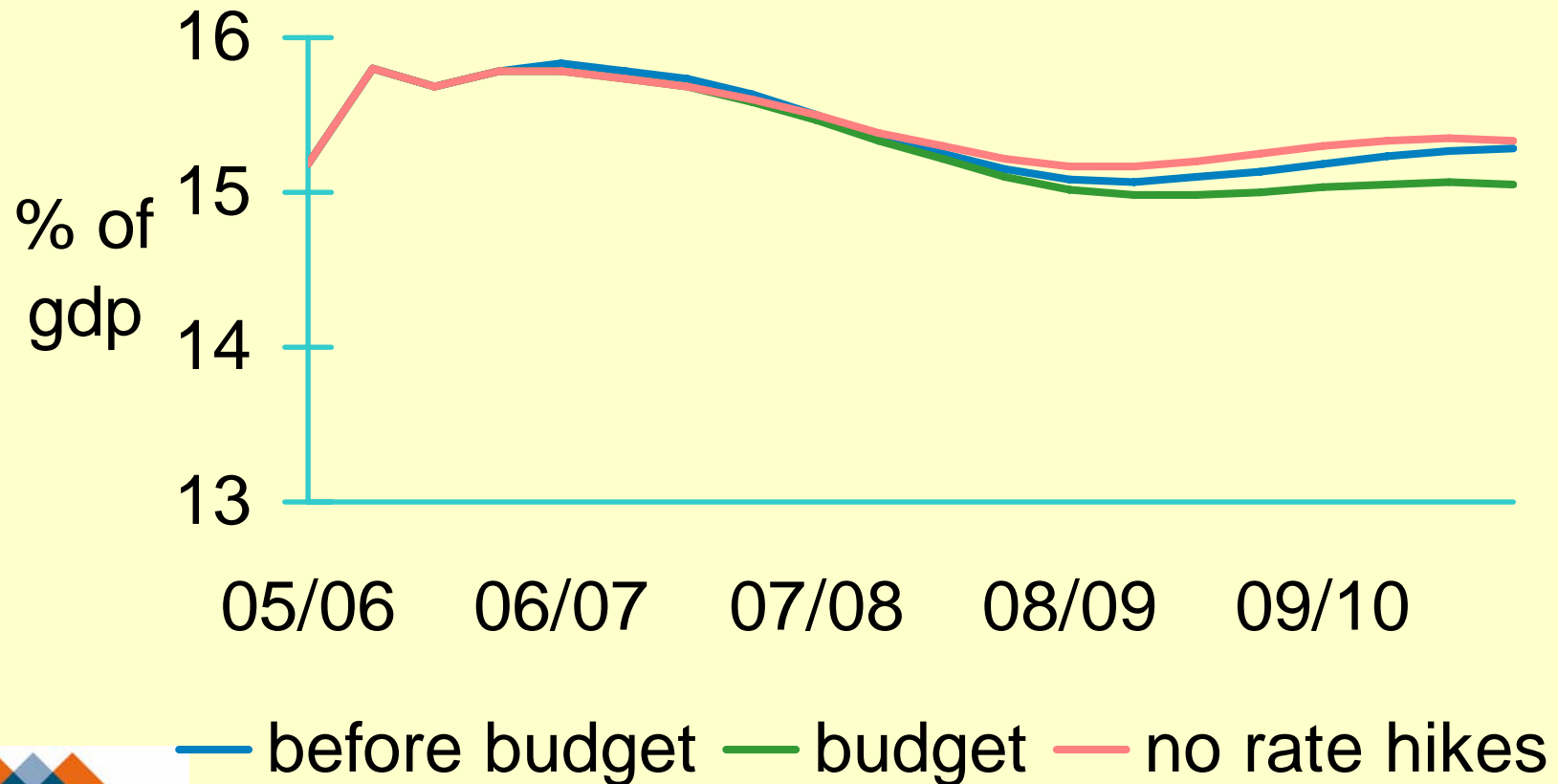
# Australian economy: Exchange rate



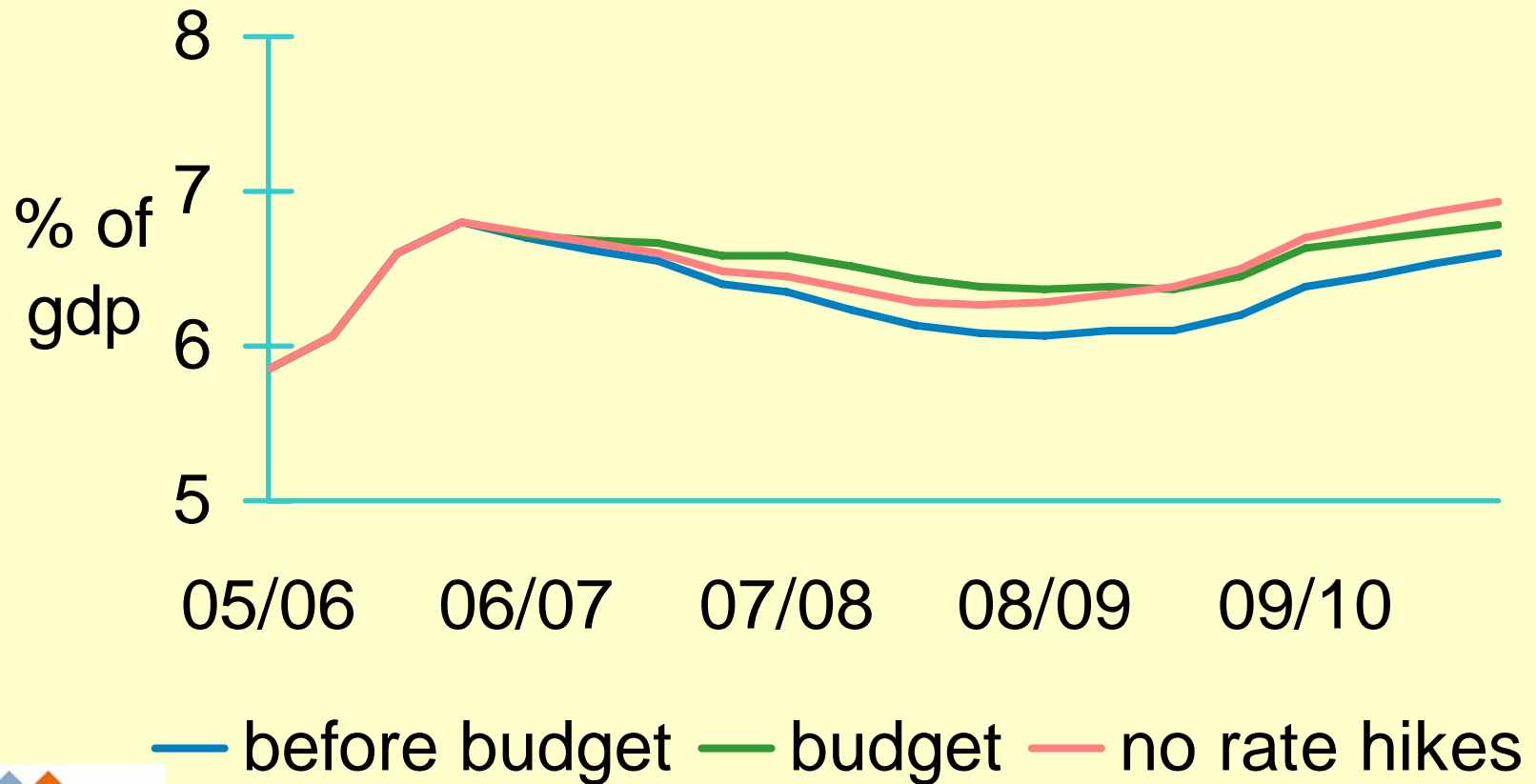
— before budget — budget — no rate hikes



# Australian economy: Business investment



# Australian economy: Current A/C deficit



# Outline

- The Budget
- Australian economy
- You
- Tourism industry



# You: Personal income tax changes

- Analysed using Econtech's Personal Income Tax Model (PITM), updated for 2003/04 ATO Taxation Statistics released on 4 May 2006
- Cuts cost \$36.7 bn over four years [PITM says \$36.2 bn]
- Equivalent to 0.8% of GDP (significant fiscal stimulus)
- Cuts composed of:
  - \$24.6 bn in cuts at lower income end of tax scale
  - \$12.1 bn in cuts at higher income end of tax scale



# You:

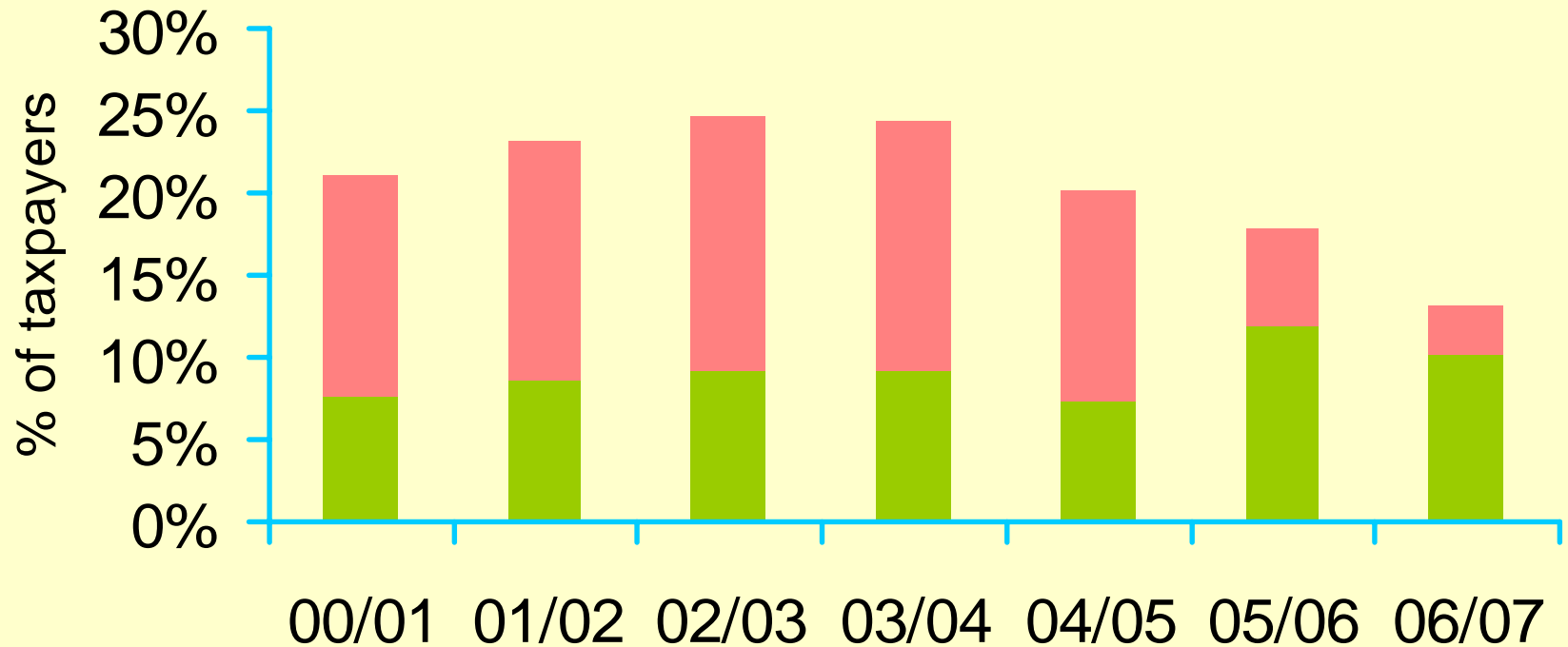
# Personal income tax changes

- **Lower income end [\$24.6 bn]:**
  - Low Income Tax Offset (LITO) raised from \$235 to \$600
  - Threshold for 30% rate raised from \$21,600 to \$25,000
  - Medicare Levy shade-in rate lowered from 20c to 10c in \$1
- **Higher income end [\$12.1 bn]:**
  - Top marginal rate dropped from 47% to 45%
  - Threshold for top rate raised from \$125,000 to \$150,000
  - 2<sup>nd</sup> top marginal rate dropped from 42% to 40%
  - Threshold for 2<sup>nd</sup> top rate raised from \$70,000 to \$75,000



You:

# Penetration of higher marginal rates

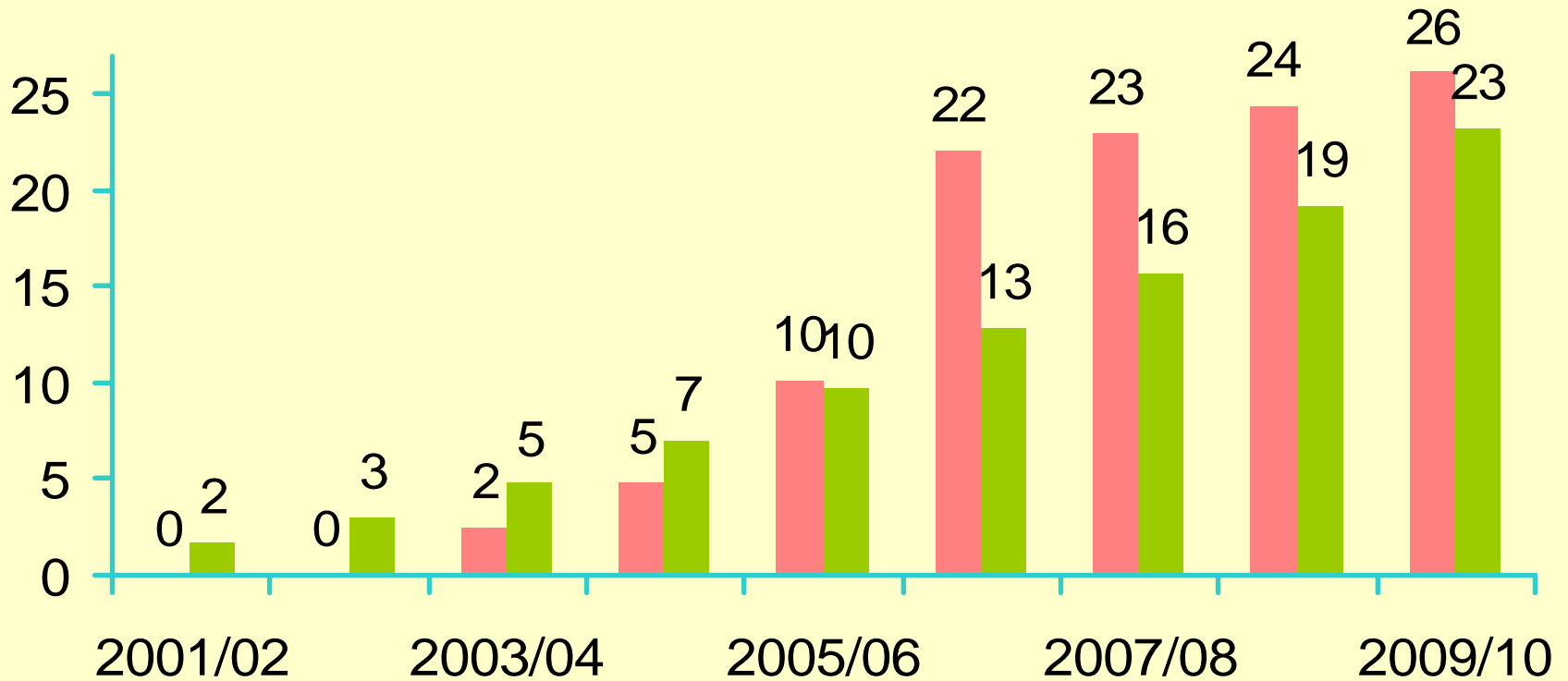


■ 40c/42c ■ 45c/47c



You:

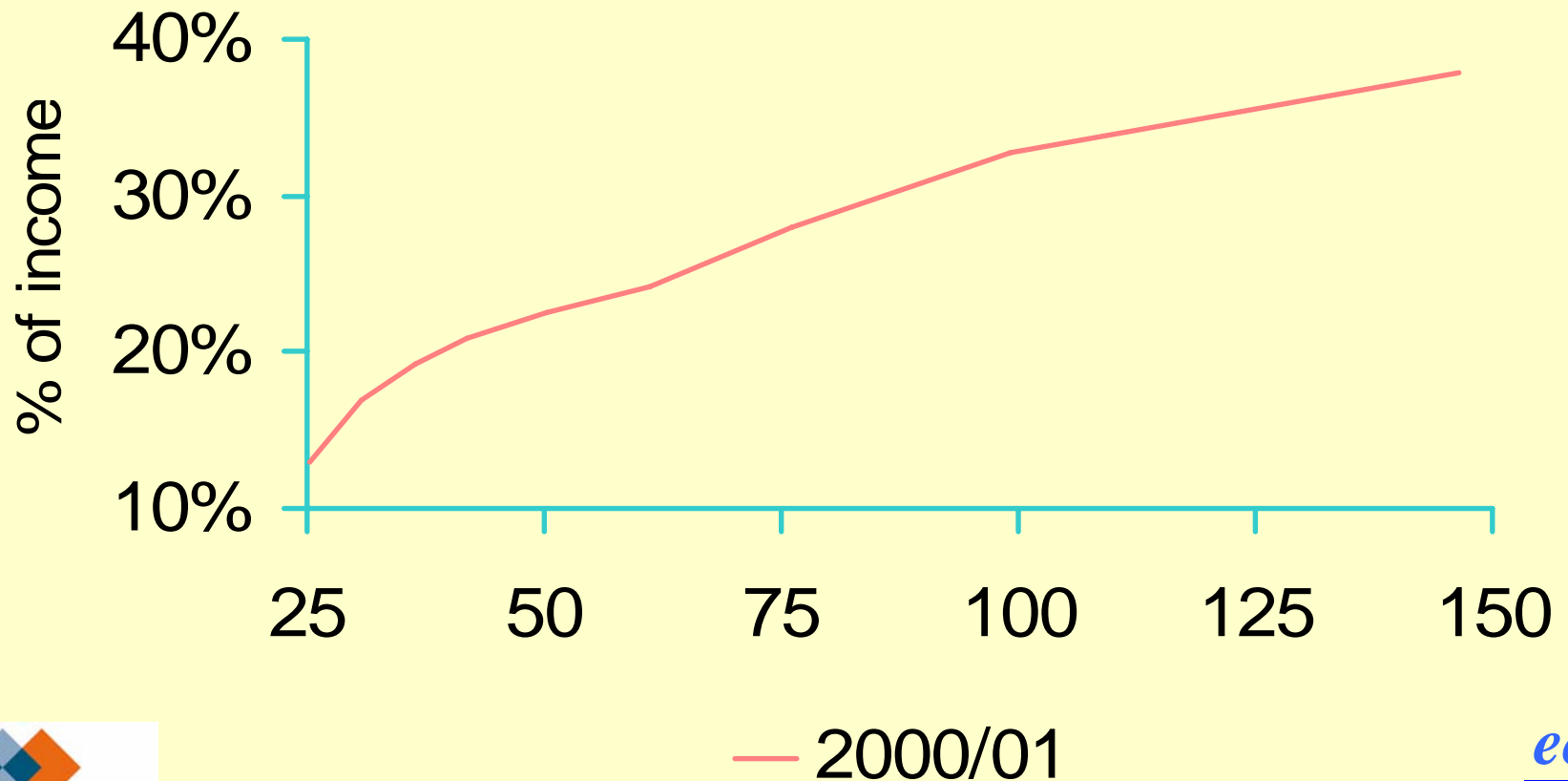
# Tax cuts vs fiscal drag since '00/01 (\$bn)



■ updated tax cuts ■ fiscal drag



# You: Tax share vs income (\$k, 2006/07)

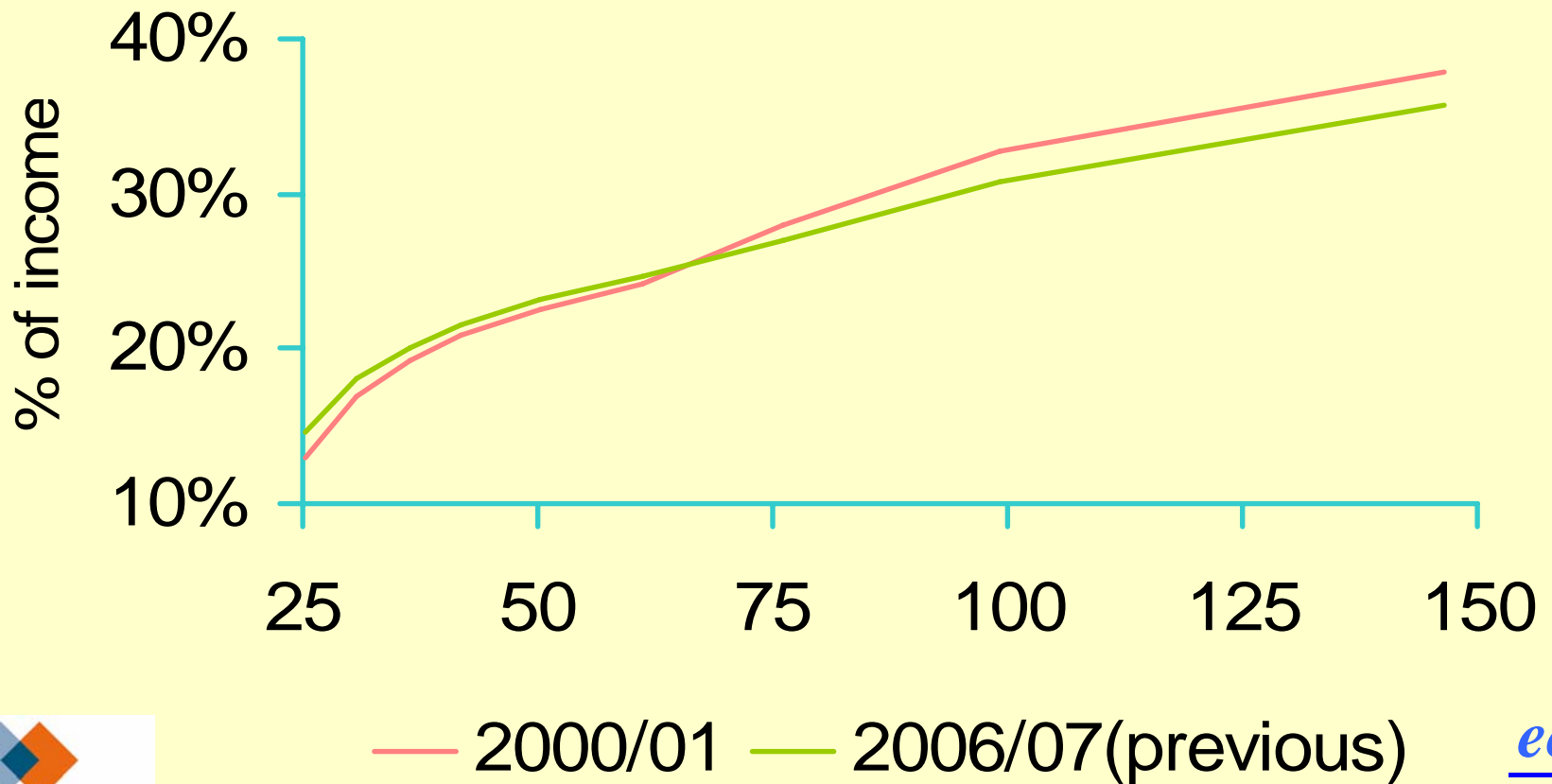


— 2000/01

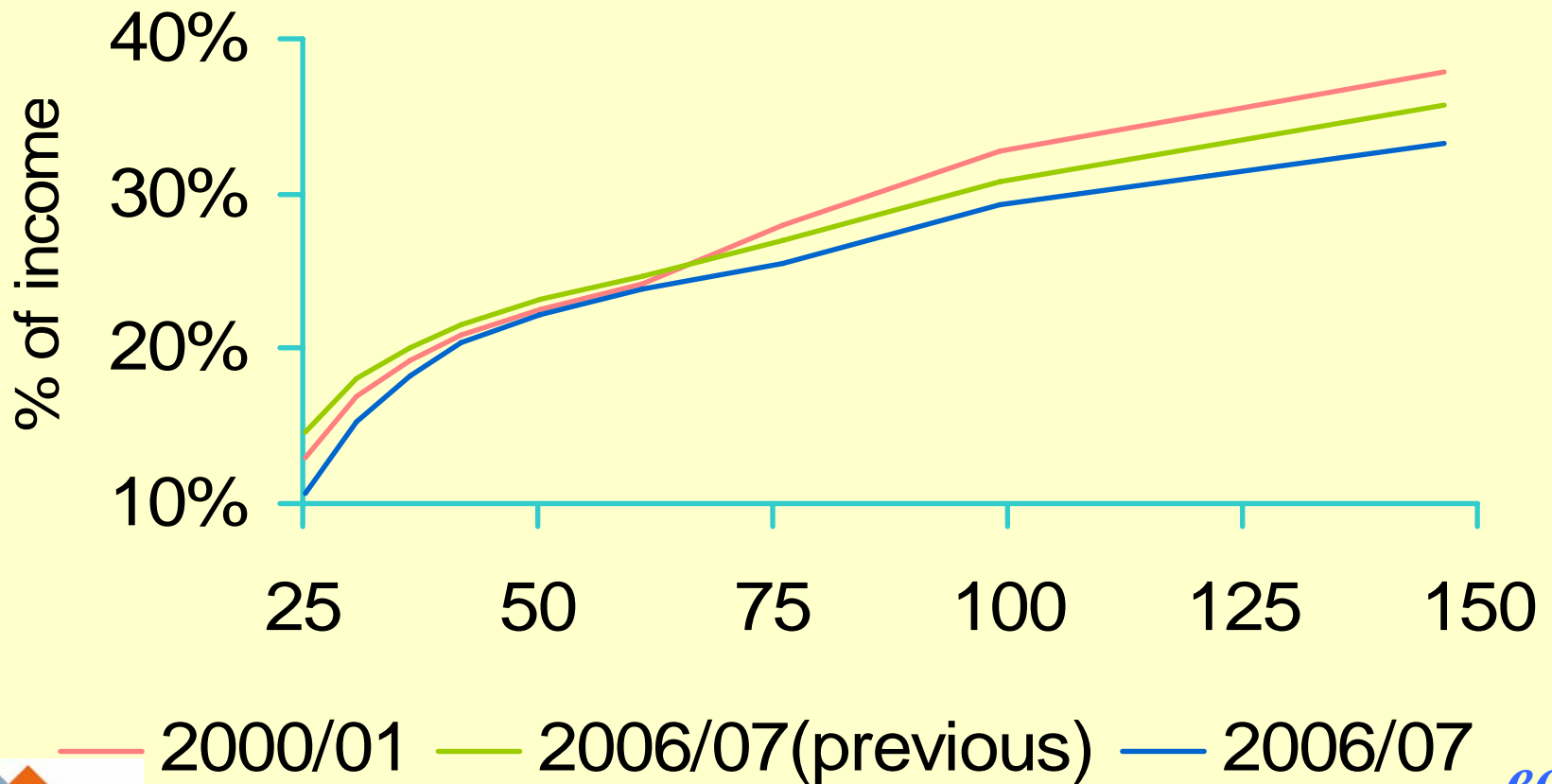


You:

# Tax share vs income (\$k, 2006/07)



# You: Tax share vs income (\$k, 2006/07)



**You:**

# Assessment of income tax changes

- Through income tax cuts announced in successive budgets, from 2006/07 the Government will go beyond returning fiscal drag since 2000/01, so there is a “genuine” component to the tax cuts
- This is true for high and low income earners alike
- To lock this in for the future, the personal income tax brackets would need to be indexed to wages
- Over the same period, families have received a further benefit from increases in family tax benefits



# Outline

- The Budget
- Australian economy
- You
- **Tourism industry**

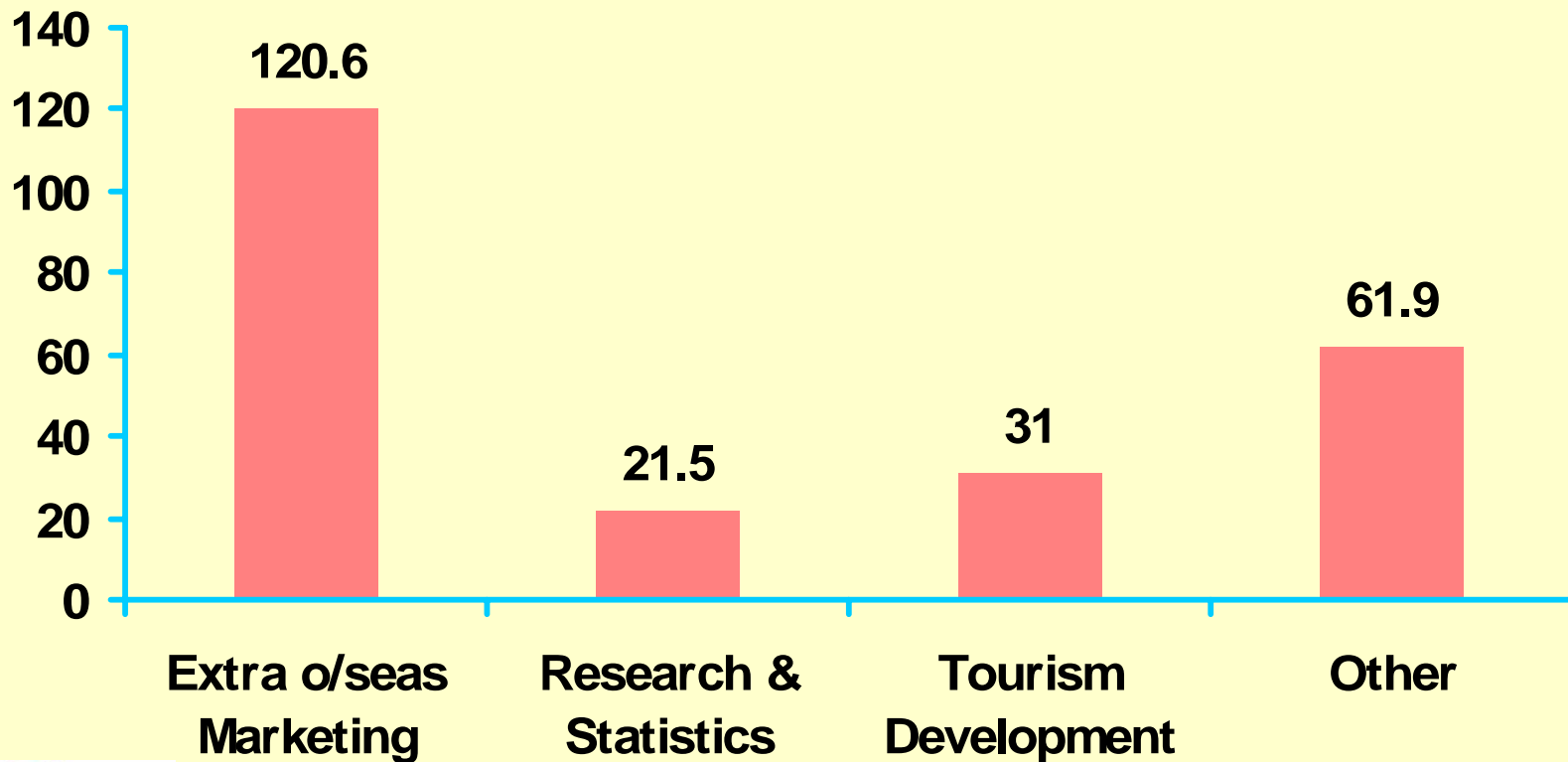


# Tourism industry: White Paper Spending

- The Tourism White Paper (TWP) was released November 2003.
- The TWP initiatives were designed to ensure a more sustainable Tourism Industry through:
  - structural reform;
  - increased international and domestic marketing; and
  - capacity building initiatives such the Australian Tourism Development Program.
- These initiatives were to be funded by a \$235 million package spread until 2007/08.



# Tourism industry: White Paper Spending (\$m)



# Tourism industry: Spending Under 2006/07 Budget

- The 2006/07 Budget notes that all tourism spending in 2006/07 and 2007/08, including the White Paper, will total \$320 million.
- This includes \$269 million for Tourism Australia.
- It also includes \$15.4 million under the tourism development program.
- The major new initiative is \$3.9 million over four years to strengthen the Approved Destination Status (ADS) scheme with China. This is partly to address government concerns about unethical tourism operators.

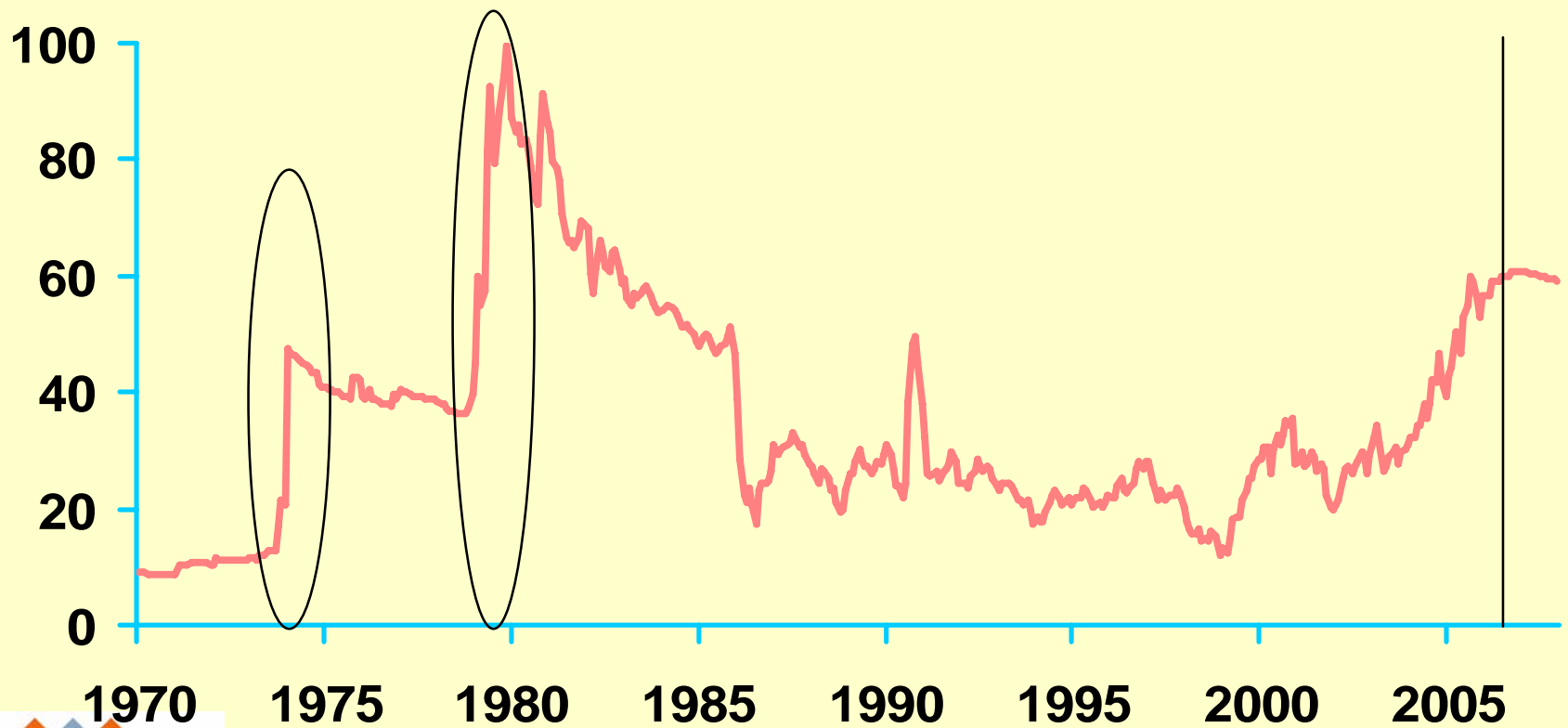


# Tourism industry: Background to Outlook

- High oil prices are raising the cost of discretionary travel, dampening the tourism industry. However, real oil prices (but not nominal oil prices) are still well below record levels.
- The strong global economy is helping maintain inbound tourism. The global outlook remains solid
- The high Australian dollar is holding back inbound and, by stimulating outbound, is holding back domestic. The high AUD is largely due to very high world mining prices.



# Tourism industry: Real Oil Prices (2005 \$US/barrel)

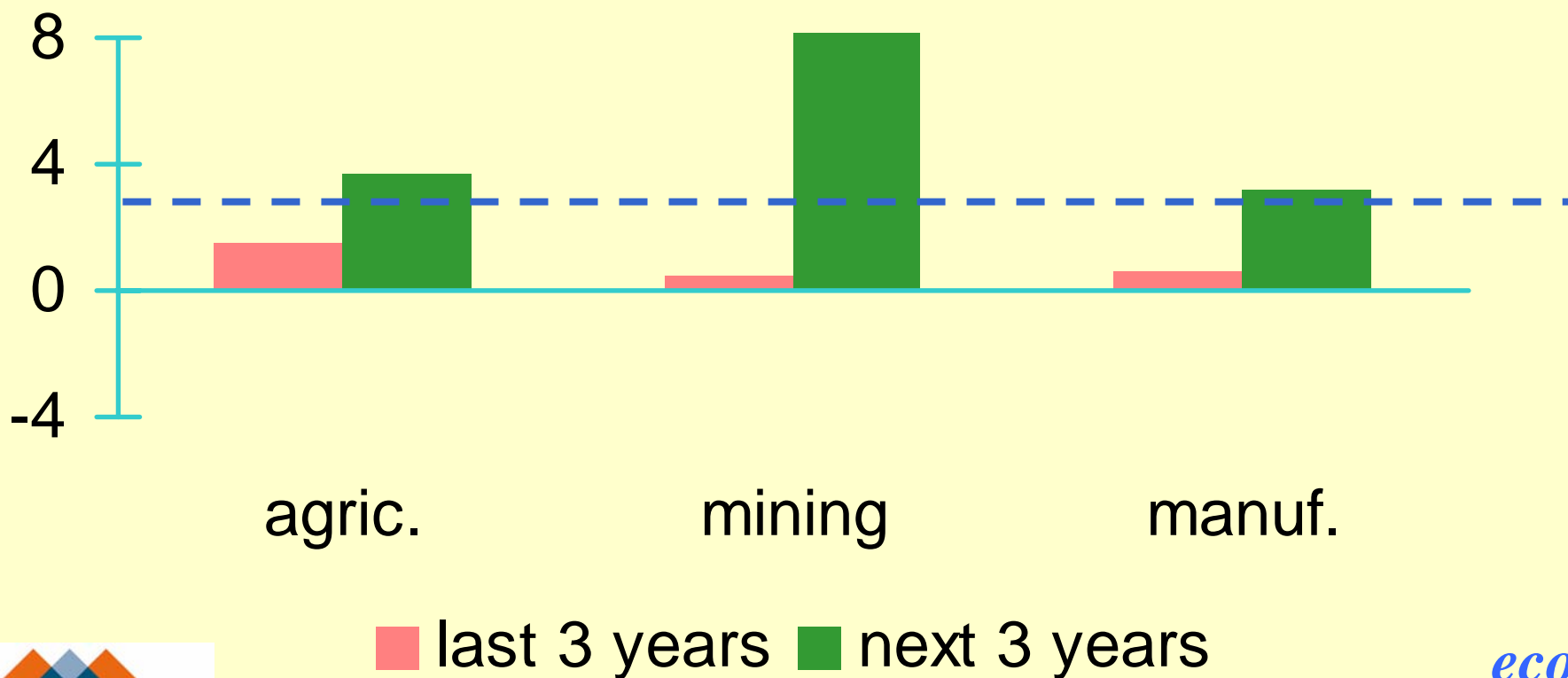


# Tourism industry: Comparative Outlook

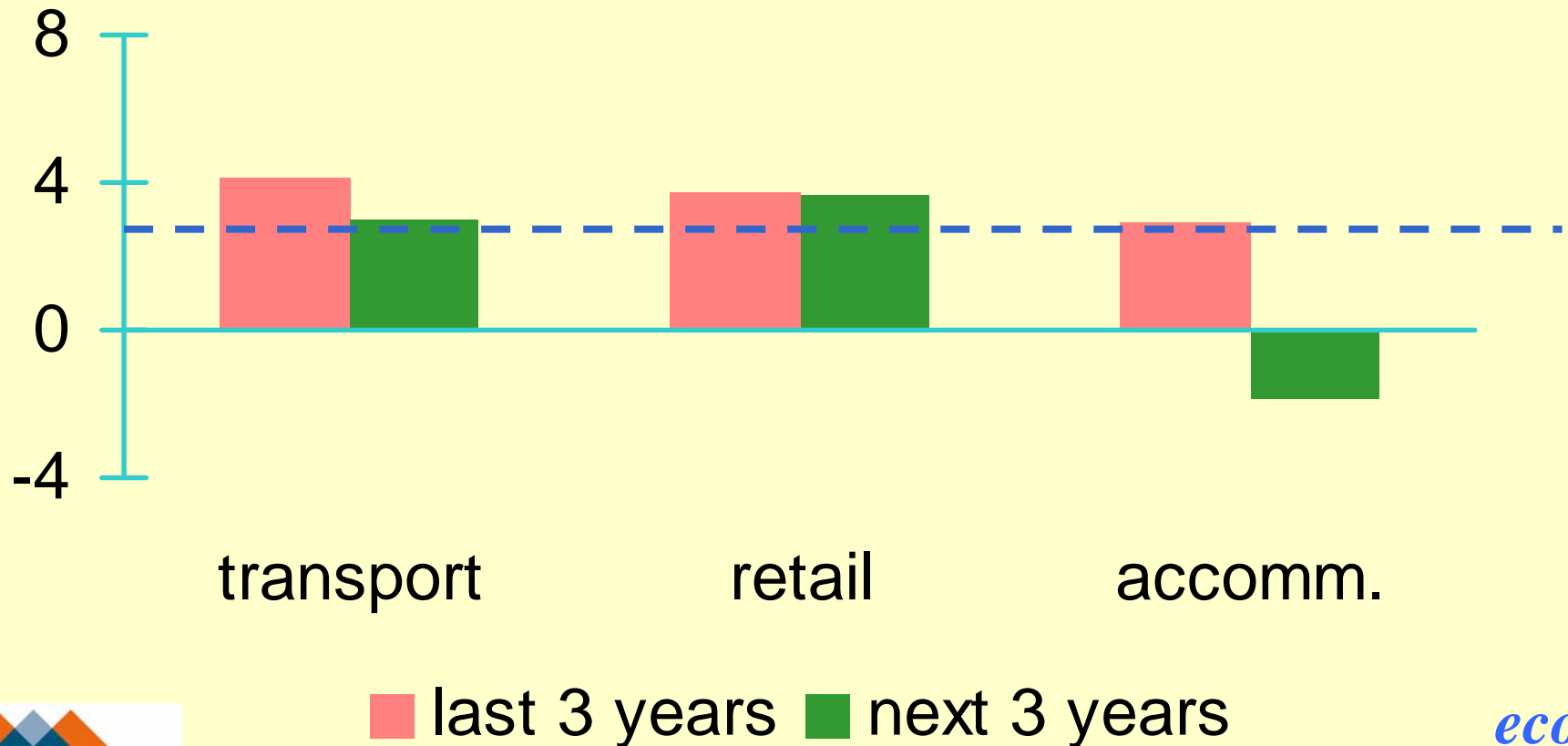
- Average annual growth for the **next 3 years**
- Compared with the **last 3 years**
- Also compared with the economy-wide growth for next 3 years of 2.7%



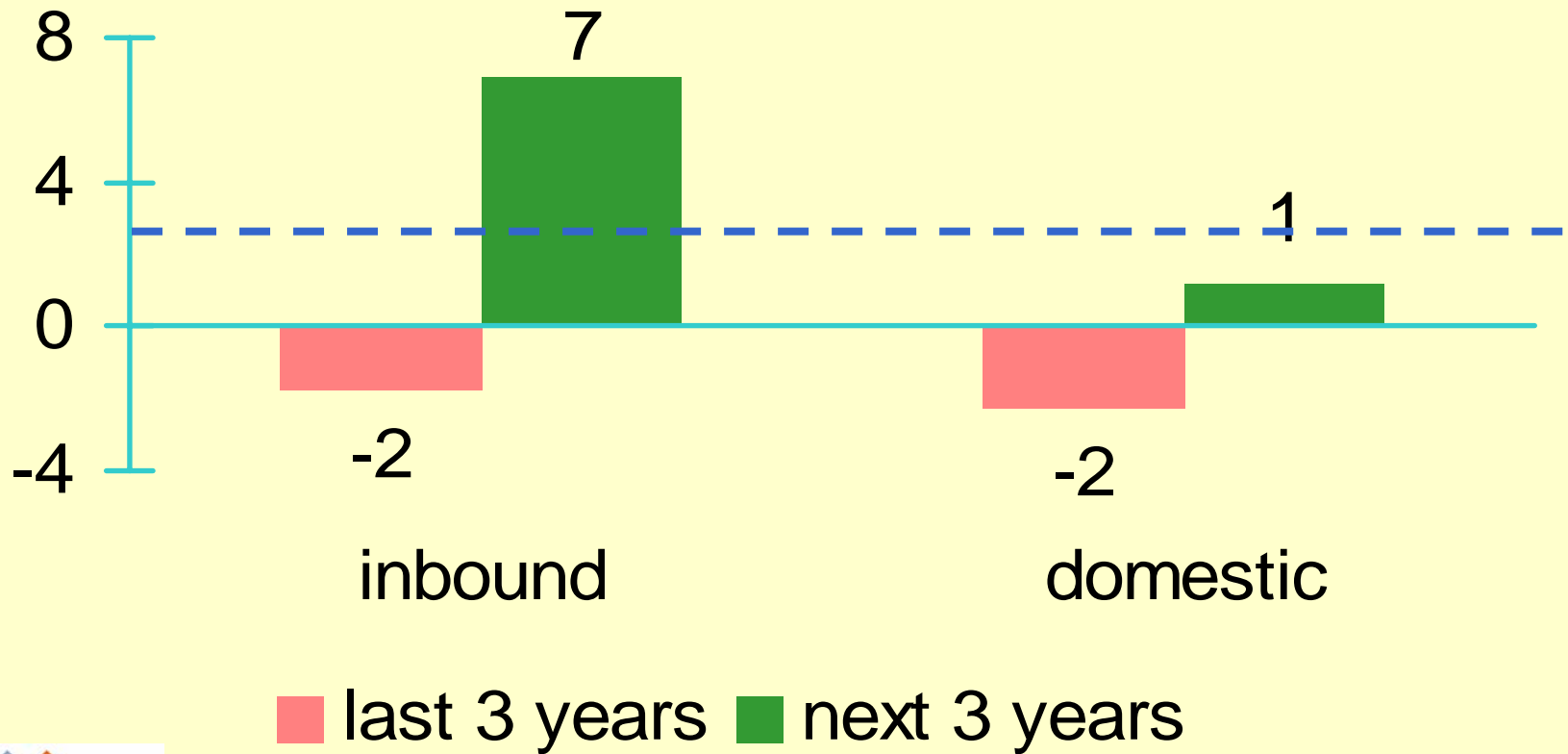
# Tourism industry: Goods Trading industries



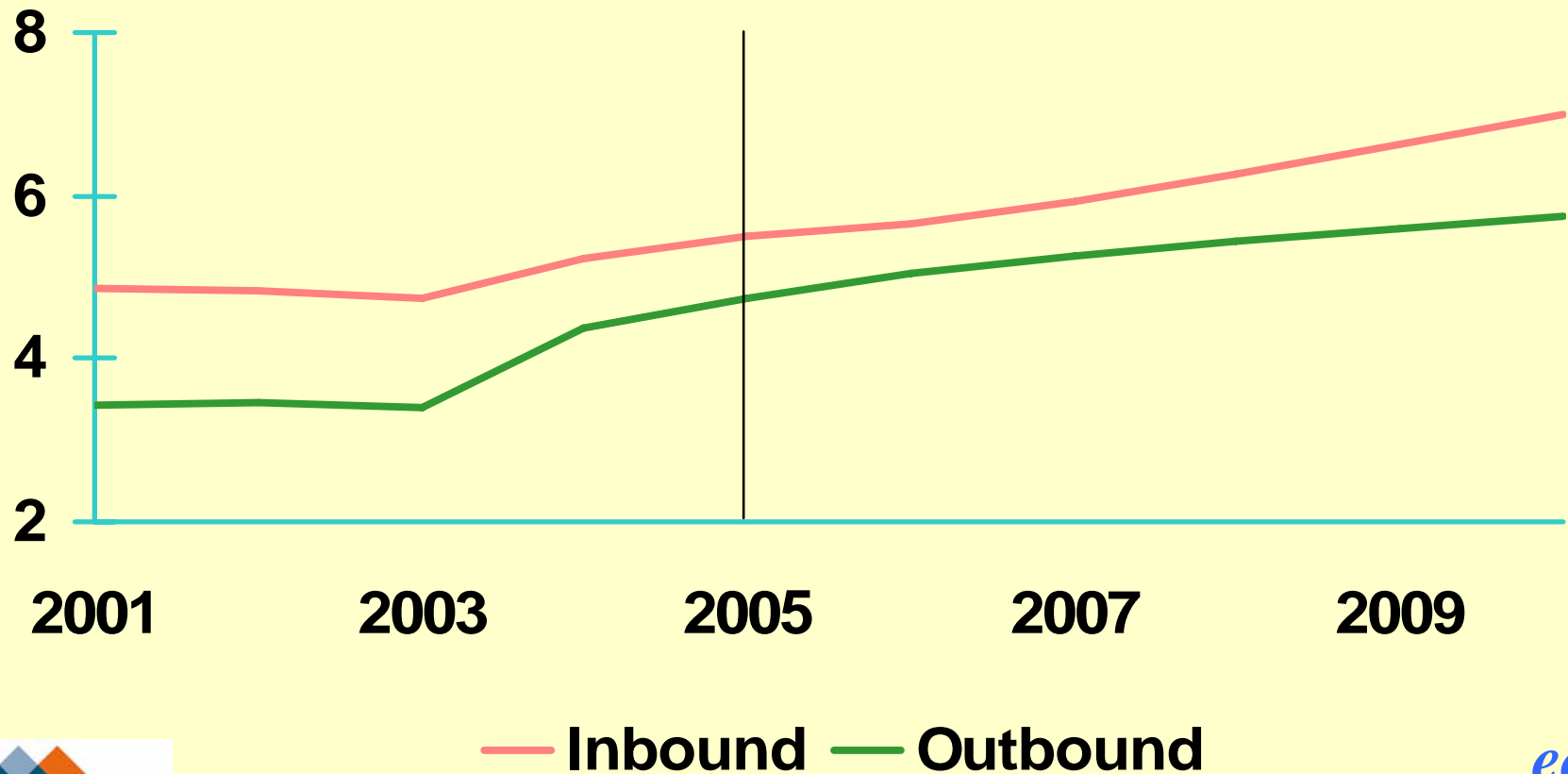
# Tourism industry: Tourism-related Industries



# Tourism industry: TFC Inbound and Domestic (real spend)



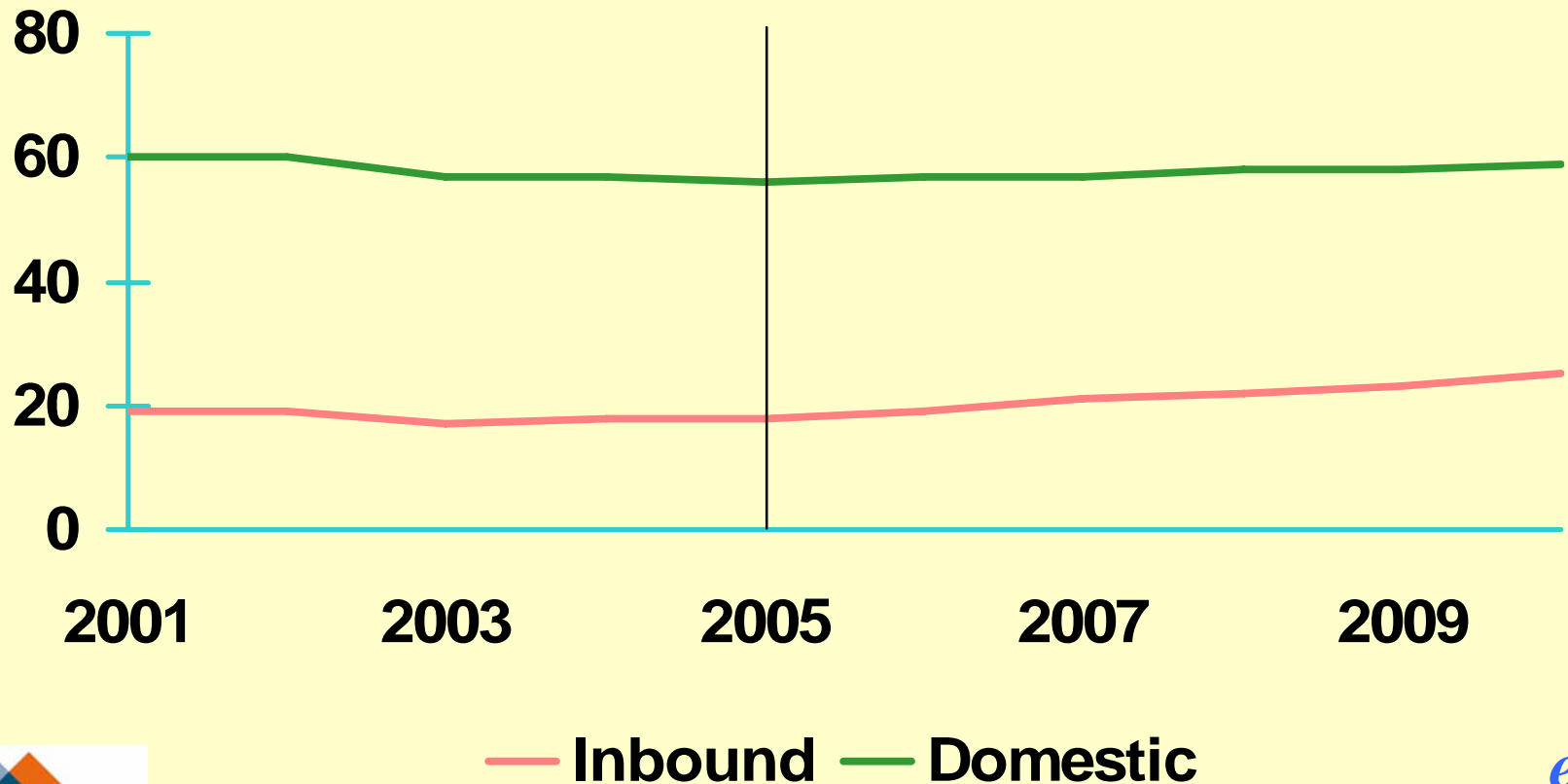
# Tourism industry: TFC Forecasts of Movements (m)



— Inbound — Outbound



# Tourism industry: TFC Forecasts of Value (\$bn, real)



# Main messages

## Australian economic outlook:

- growth recovering; headline inflation above 3% in 2006, but temporary; cash rate should go no higher than 6.0%

## You and the personal income tax cut:

- budget surplus still strong; “genuine” component to tax cuts; why not index the tax brackets?

## Tourism:

- High oil prices and exchange rate are challenges
- Future of Government spending beyond White Paper?

