

Response to  
Questions on Notice

16 May 2019

Prepared by the Treasury

## **Preface – Caretaker Role**

As of 11 April 2019, the Government is operating in a caretaker role, and as such there is a longstanding convention that outlines the role of the public service through this period. With regard to the Annual Wage Review, the public service is unable to comment or express an opinion on matters of policy under the convention but may be able to assist by explaining any factual elements of the Government's submission which may be relevant to the Expert Panel's decision.

## Question 1

PN38

JUSTICE ROSS: Am I right in reading there that that shows that for all of the household types modelled bar two, there was an increase in weekly disposable income between \$4 and \$5 per week?

PN39

MS BAKER: That's correct.

PN40

JUSTICE ROSS: The two are the single parent working part-time, one is with one child and the other's with two children, and not in receipt of the Newstart Allowance.

PN41

MS BAKER: That's right, your Honour.

JUSTICE ROSS: Do I - I mean we put the supplementary questioning, can I just take you to that. The ACTU is suggesting - this is in response to Ai Group's analysis of the low and middle income tax offset, and we underlined the last part of their quote, the quote from their submission. They say:

PN43

*And in fact may entail a fall in income after taxes and transfers, amounting to income traps.*

PN44

Am I interpreting your analysis correctly that you don't agree with that proposition, or is it referring to something different?

PN45

MS BAKER: So my interpretation of the modelling results is that that wouldn't be the case, but I am happy to take that on notice because I could consult further with the modellers to get a conclusive view of that particular statement.

## Response

1) The modelling presented to the Panel shows no change for Single Parents not on Income Support working part-time (assumed to be earning 50 per cent of full time minimum wage) as they do not receive enough income to pay tax, and so LMITO has no impact on their tax paid.

2) Cameos are stylised examples of potential outcomes. Actual outcomes for individuals vary depending on their specific circumstances. We are unable to comment on specific outcomes.

Treasury is not aware of any circumstances where the introduction of LMITO will result in a reduction in disposable income for any families due to interactions with means tested payments or other tax rebates.

## Question 2

PROFESSOR RICHARDSON: Thank you. Now the terms of trade is sometimes confused with the price of minerals, but in fact we export a lot more than just minerals. We export agriculture products, we export education, we export tourism, amongst other major examples. Are you able to give us any information on how the relative price of those on the international market has changed in recent years, not just - so the difference between the impact that they're having on the aggregate terms of trade?

PN56

MS BERGER-THOMSON: So I don't have that precise information with me but I'm very happy to take it on notice. The one point that I would make is that by far away the biggest factor that effects movements in our terms of trade is commodity prices, just because they are so - well they're a very large basket. Commodities account for over 50 per cent of our exports and we know that the prices of those goods are particularly volatile. So yes, I'm happy to take the other components on notice but you know I would expect that really in terms of the volatility in the terms of trade, a large share of it does come from commodity prices.

PN57

PROFESSOR RICHARDSON: So if you were able to do that reasonably promptly.

PN58

MS BERGER-THOMSON: Yes.

## Response

Non-rural commodity exports account for just over half of Australia's total exports, while tourism exports (which includes education services) account for 15 per cent, and rural goods exports account for 12 per cent. Over the past two decades, changes in non-rural commodity export prices have been the most significant driver of changes in the terms of trade. This is due to both their share of exports and their significant price change.

The terms of trade almost doubled between the turn of the century and its peak in 2011-12, around three-quarters of this increase was driven by non-rural commodity export prices, while one-eighth was driven by rural goods and services exports prices combined. A fall in import prices contributed around one-tenth. When the terms of trade fell by almost 30 per cent over the four years following 2011-12, non-rural commodity export prices again accounted for around three-quarters of that fall, while rural goods and services export prices rose and offset around one-tenth of the overall decline in the terms of trade.

Please also see chart over page.

Chart: Terms of Trade – Contributions to Growth

