

From: s 22
To: [Berger-Thomson, Laura](#)
Cc: s 22 [MEG MECD National Accounts Unit](#)
Subject: Price and wage scenario - BS2 [SEC=PROTECTED]
Date: Tuesday, 17 April 2018 2:35:35 PM
Attachments: [Sensitivity test - Rounded shock impacts - for TAD.xls](#)
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Hi Laura

We've updated the scenario for BS2 on lower prices and wages. The scenario now shocks CPI by 0.5 percentage points in both 2018-19 and 2019-20 (cumulative impact). The results are similar to last year's Budget (the shock in 2019-20 is larger - -0.8ppt v -0.6ppt). The summary of shock impacts (rounded) for TAD/BPD is attached as well as s 22
s 22 .

The shocked CPI is s 34(3) per cent in both 2018-19 and 2019-20.

Given the new shock we are proposing the below scenario text in BS2.

Over recent years, weak wage and price growth has constrained nominal GDP growth. If inflation and wage growth are lower than forecast, slower nominal GDP growth would constrain taxation receipts, partially offset by a fall in payments. For example, if inflation outcomes were ½ percentage point lower ~~by 2019-20~~ in each of 2018-19 and 2019-20, the direct impact on the level of nominal GDP could result in it being around X per cent lower than forecast by 2019-20, resulting in a deterioration in the underlying cash balance of around \$X billion by 2019-20.

Happy to discuss.

Thanks,

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Shock - yearly impacts

	2017-18	2018-19				2019-20			
	Baseline	Baseline	Shock	New parameter	growth	Baseline	Shock	New parameter	growth
Nominal GDP	s 34(3)		-0.3	s 34(3)		-0.8	s 34(3)		
non farm GDP deflator			-0.3			-0.8			
CPI			-0.3			-0.8			
AWE			-0.4			-0.9			
GNI			-0.3			-0.8			
UBRs			0.0			0.0			
COE			-0.3			-0.8			
Nominal consumption			-0.3			-0.8			
Corporate GOS			-0.3			-0.7			
Employment			0.0			0.0			
GMI			-0.3			-0.7			
Mining GOS			0.0			0.0			
MTAWE year average growth									
CPI year average growth									

Shock - 6 month and quarterly impacts

Wages breakdown (MTAWE)

Wages breakdown (HMAWE)		2018-19			2019-20		
		Baseline	Shock	New Parameter	Baseline	Shock	New Parameter
Percentage change over six months to							
- December qtr		\$ 34(3)	-0.3	\$ 34(3)		-0.3	\$ 34(3)
- June qtr			-0.2			-0.3	

CPI breakdown

	2018-19			2019-20		
	Baseline	Shock	New Parameter	Baseline	Shock	New Parameter
Percentage change over six months to	s 34(3)		s 34(3)			s 34(3)
- September qtr		-0.2			-0.3	
- December qtr		-0.2			-0.3	
- March qtr		-0.2			-0.3	
- June qtr		-0.2			-0.3	
Percentage change over quarter						
- September qtr		-0.1			-0.1	
- December qtr		-0.1			-0.1	
- March qtr		-0.1			-0.1	
- June qtr		-0.1			-0.1	
MTAWE year average growth						
CPI year average growth						

Shock - tty impacts

Wages breakdown (MTAWE)						
Percentage change over year to	2018-19			2019-20		
	Baseline	shock	New Parameter	Baseline	shock	New Parameter
- December qtr	s 34(3)	-0.20	s 34(3)		-0.50	s 34(3)
- June qtr		-0.50			-0.60	

CPI breakdown						
Percentage change through the year	2018-19			2019-20		
	Baseline	shock	New Parameter	Baseline	shock	New Parameter
- September qtr	s 34(3)	-0.20	s 34(3)		-0.50	s 34(3)
- December qtr		-0.20			-0.50	
- March qtr		-0.40			-0.50	
- June qtr		-0.40			-0.50	