



Future proofing

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Customer Owned Banking Convention, Darwin
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Australia has had a great decade, with the benefits well spread

- The mining boom was very large and drove a big lift in incomes
- The benefits were well-spread across States, income levels, and ages
- Older age groups became much wealthier as interest rates fell
- Health improved, crime fell, and well-being indicators are generally high

However, harder times are ahead

- Per capita incomes are likely to grow much more slowly
- The long run of prosperity has led to complacency
- Budgets are unsustainable

Younger age-groups are more vulnerable

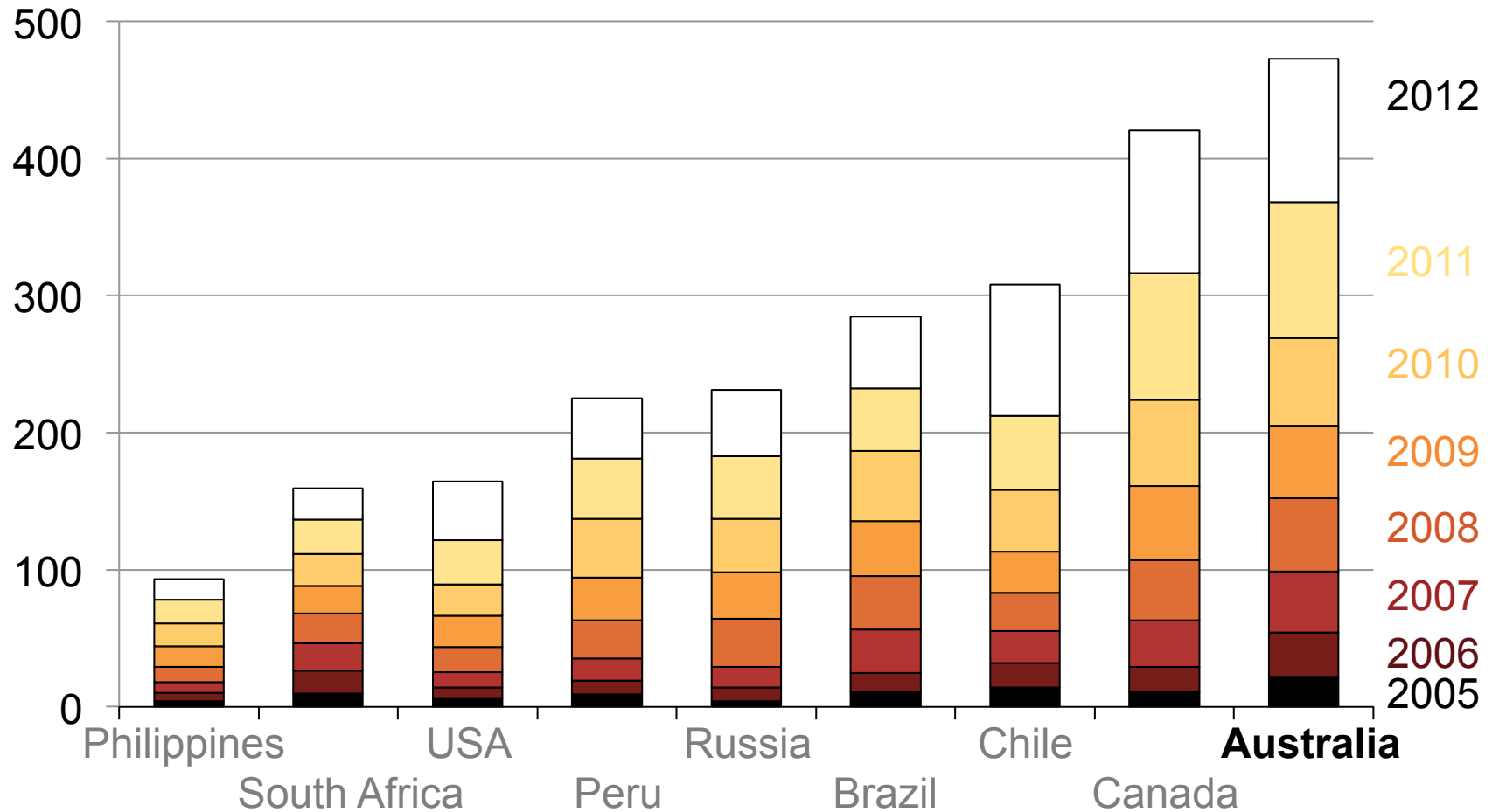
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- In the UK and US, a younger generation is less well off than its parents

Increasing growth and balancing budgets requires tougher calls

- The most important growth opportunities require tax and welfare reform
- Budget reform should rethink pensions, superannuation and asset taxation
- Most of the sensible choices imply lower property prices
- Meanwhile, older households will have an increasing share of consumption ²

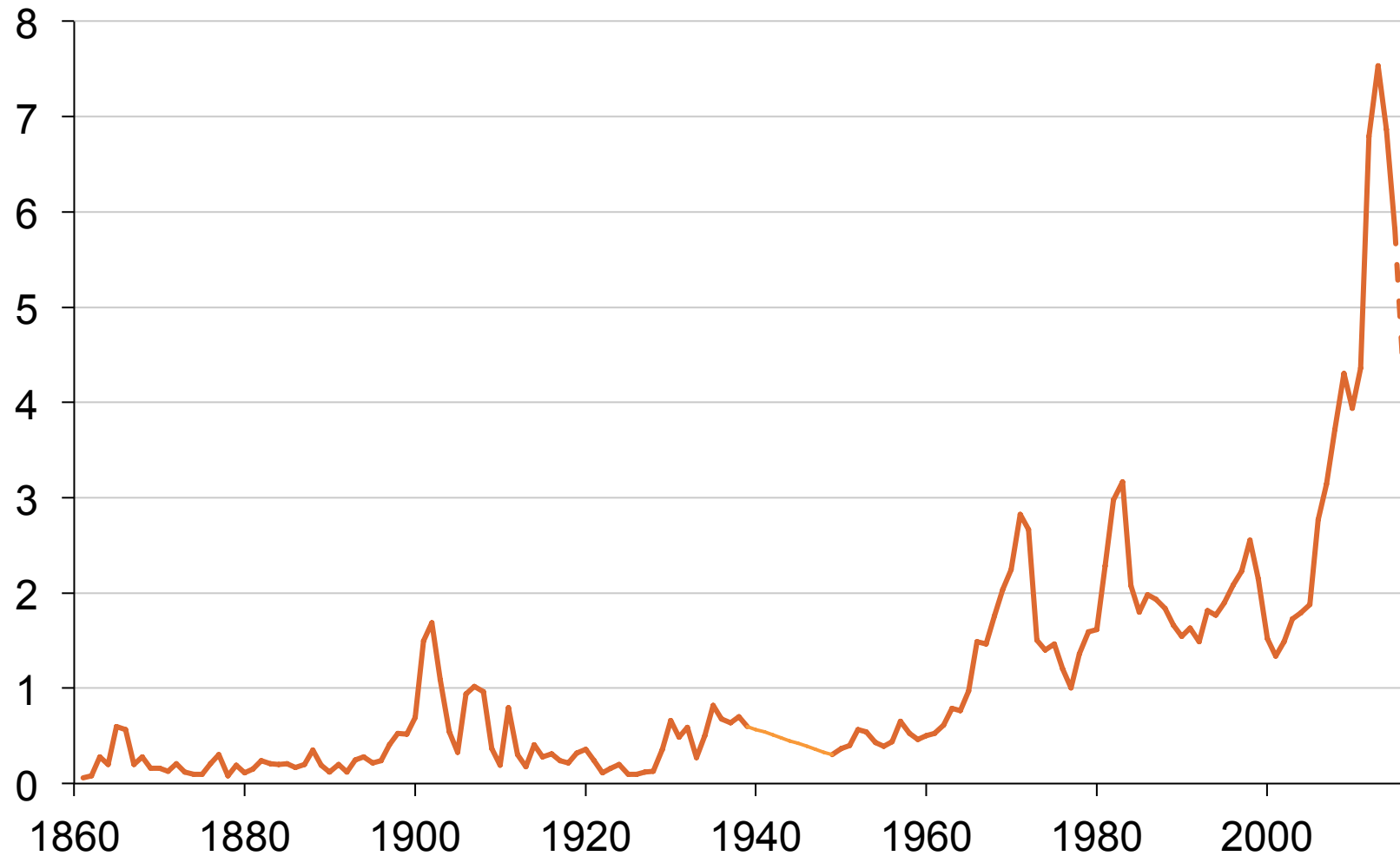
The Australian mining boom was the largest in the world

Mining investment 2005-2012 (US\$b, nominal)



It was also the largest mining boom in Australia's history

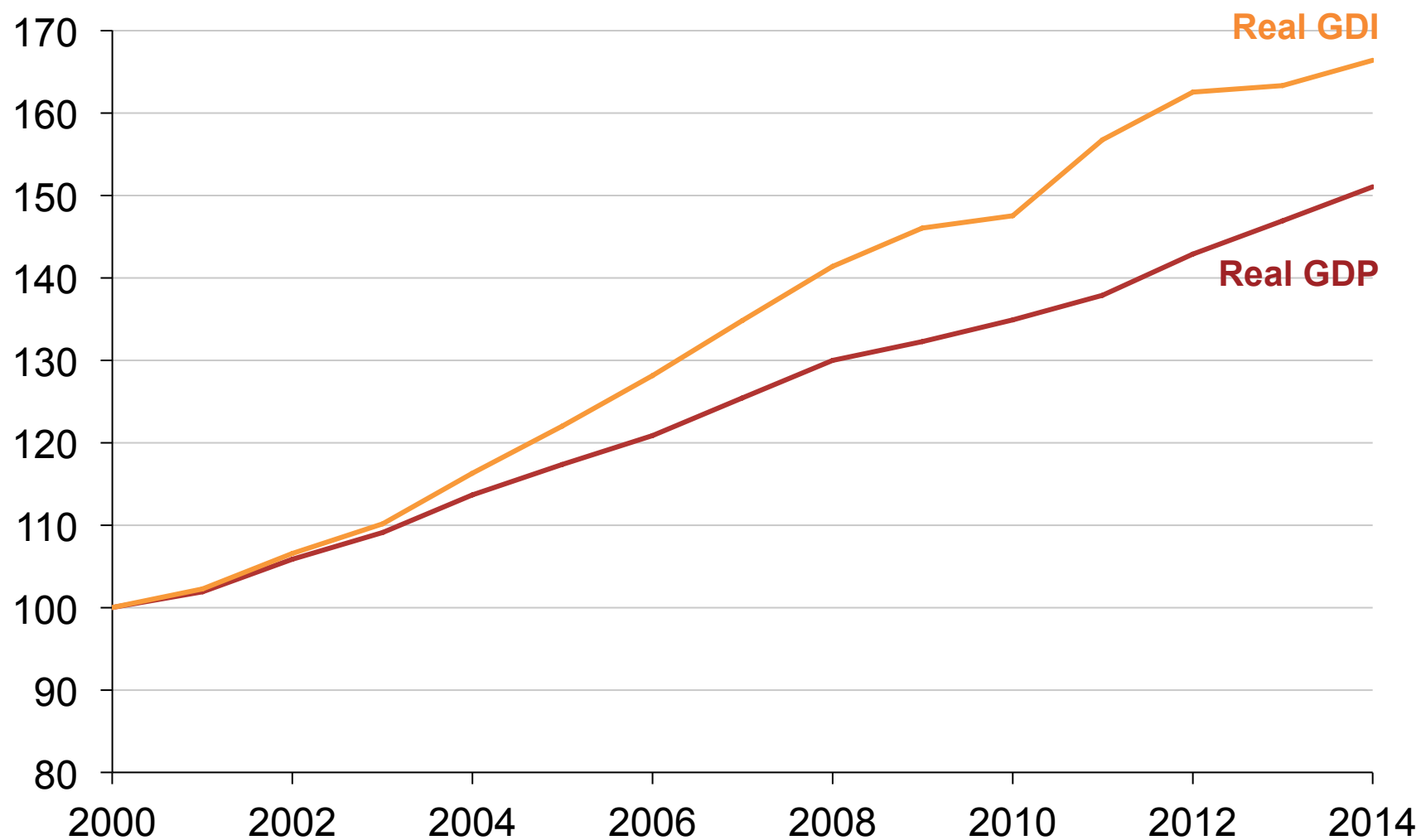
Mining investment in Australia as percentage of GDP



Source: Treasury analysis (unpublished) based on RBA, March Quarter 2010 *Bulletin*, "Mining Booms and the Australian Economy", citing Butlin and Withers; mining investment in the annual national accounts (current prices, original); 2015-16 Budget forecasts

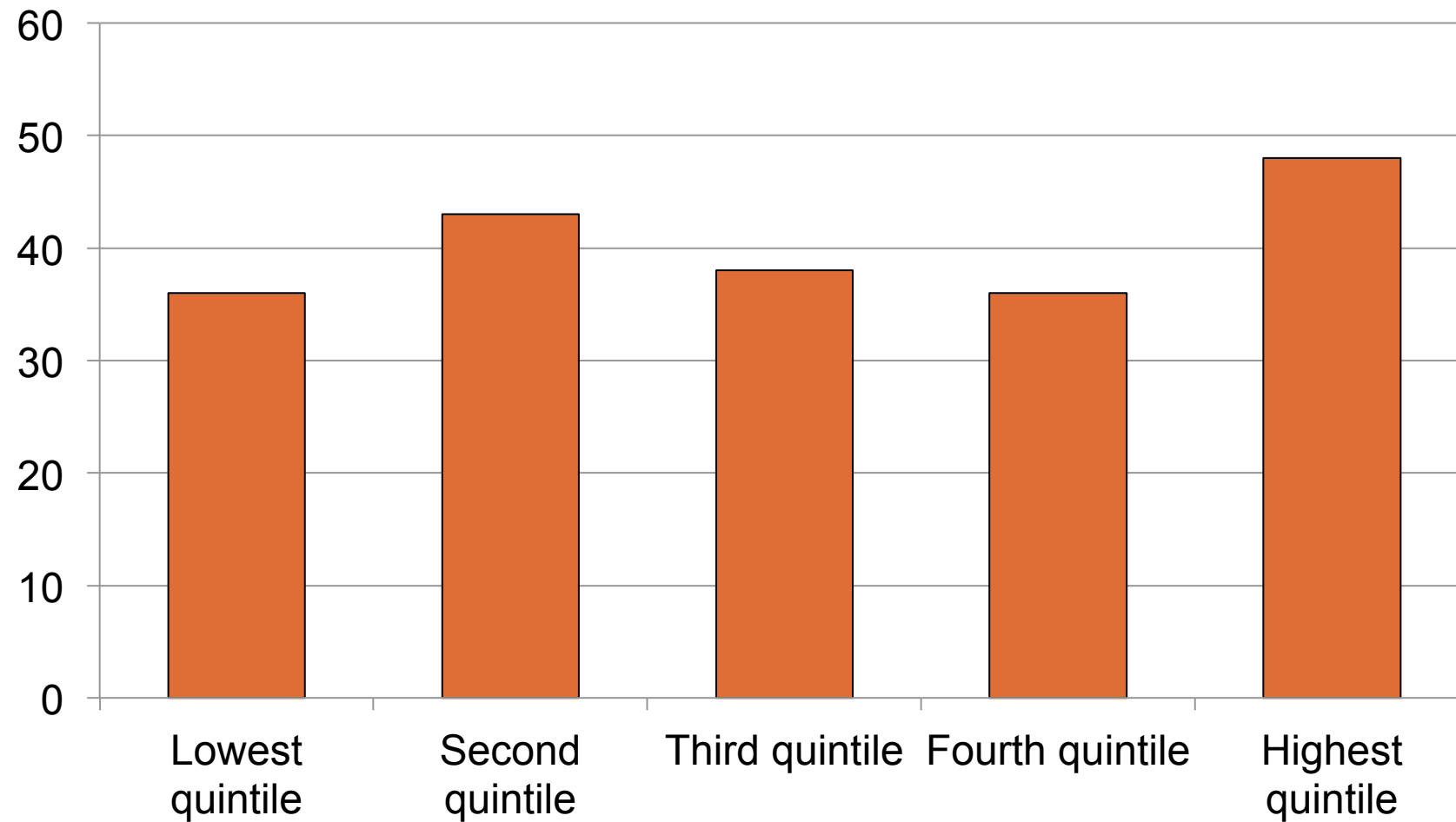
Real incomes rose 60%

Index year: 2000=100



All groups benefited from substantial income growth

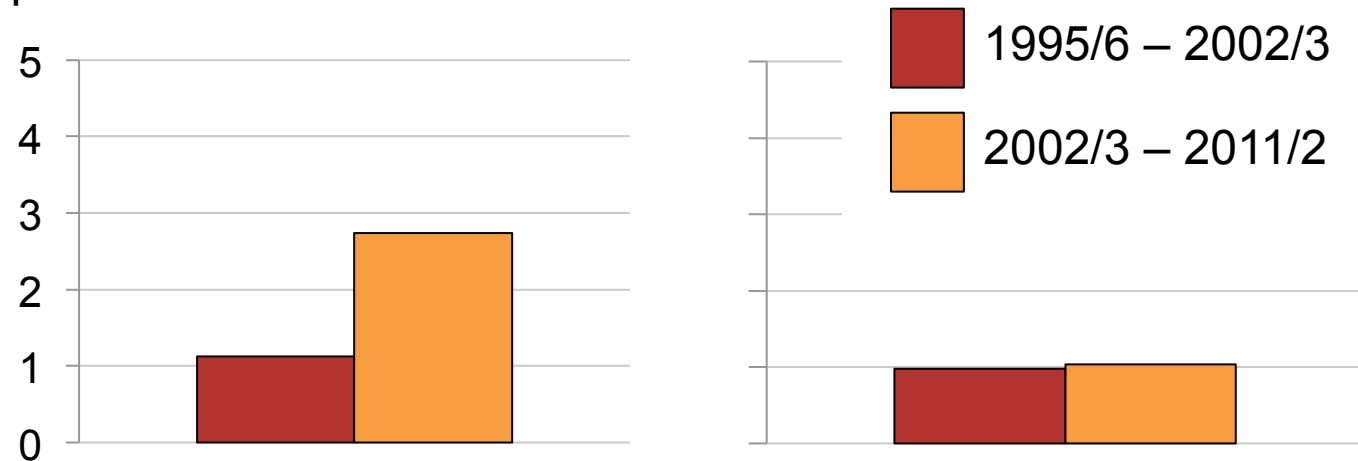
Growth in household post-tax real income, 2000 – 2010
Percent increase, mean of quintile



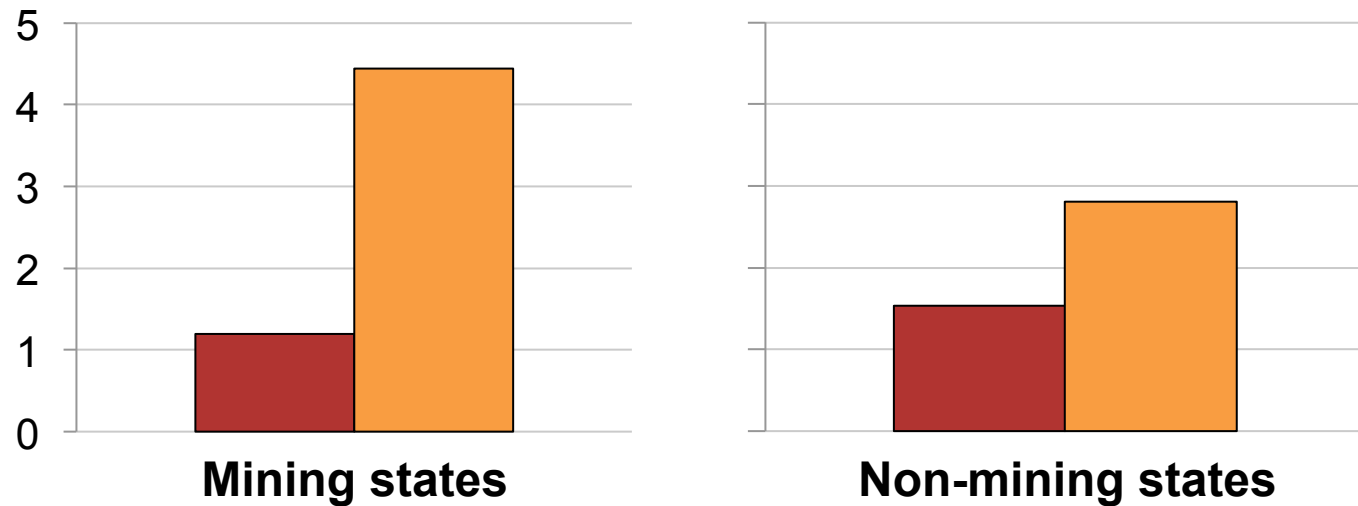
Personal incomes grew strongly even in the non-mining states

Annual growth, per cent

Average weekly earnings



Household income per person

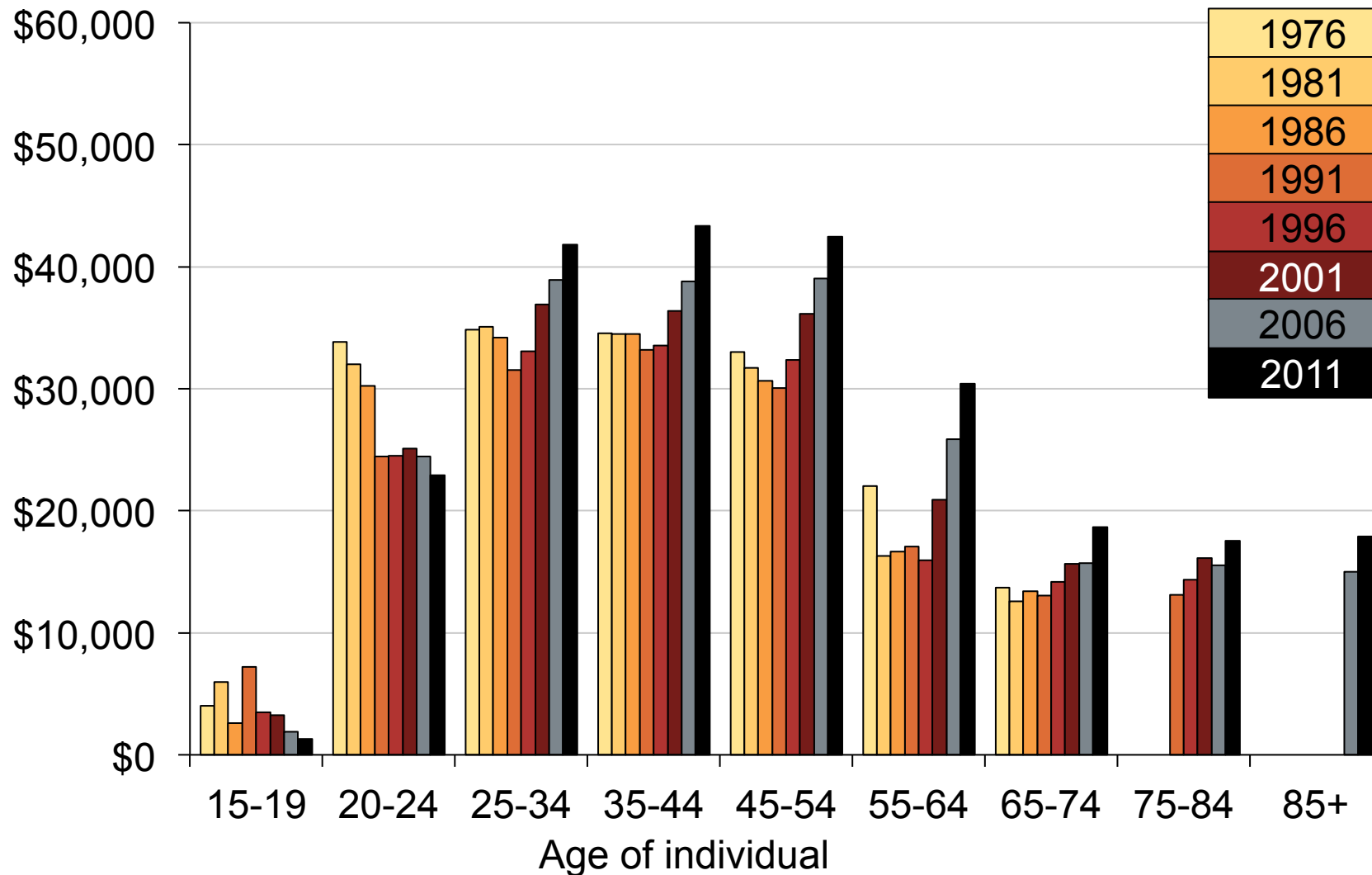


Note: Wage = AWE deflated using CPI cap cities deflators, where wage data includes FT and PT. Household income = Gross disposable income per capita (Household) deflated using CPI deflators.

Source: Grattan Institute, *The Mining Boom*

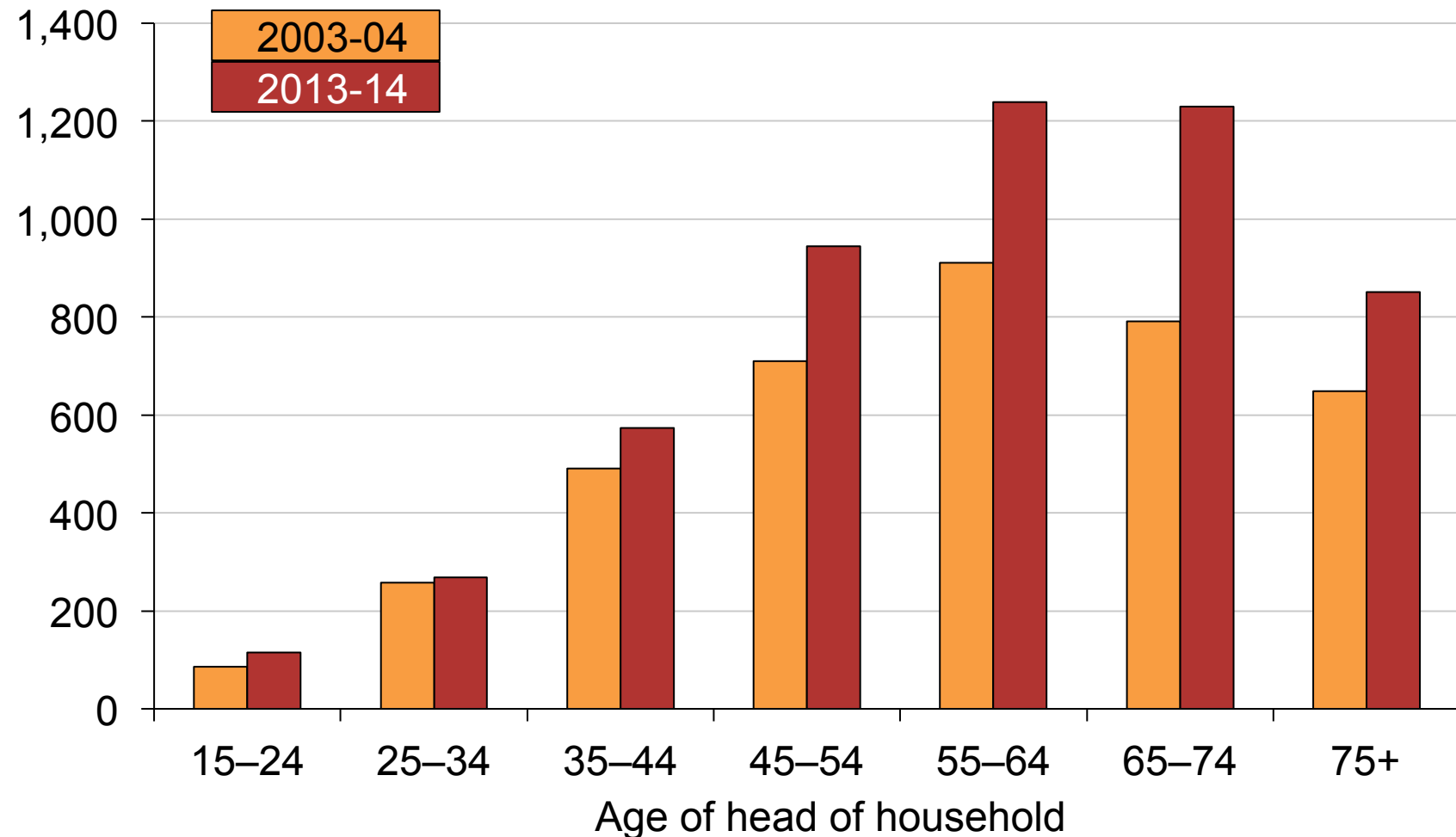
Incomes increased for everyone aged over 25 over the long term

Median annual income, \$2013



The average 55-74 year old is now a millionaire

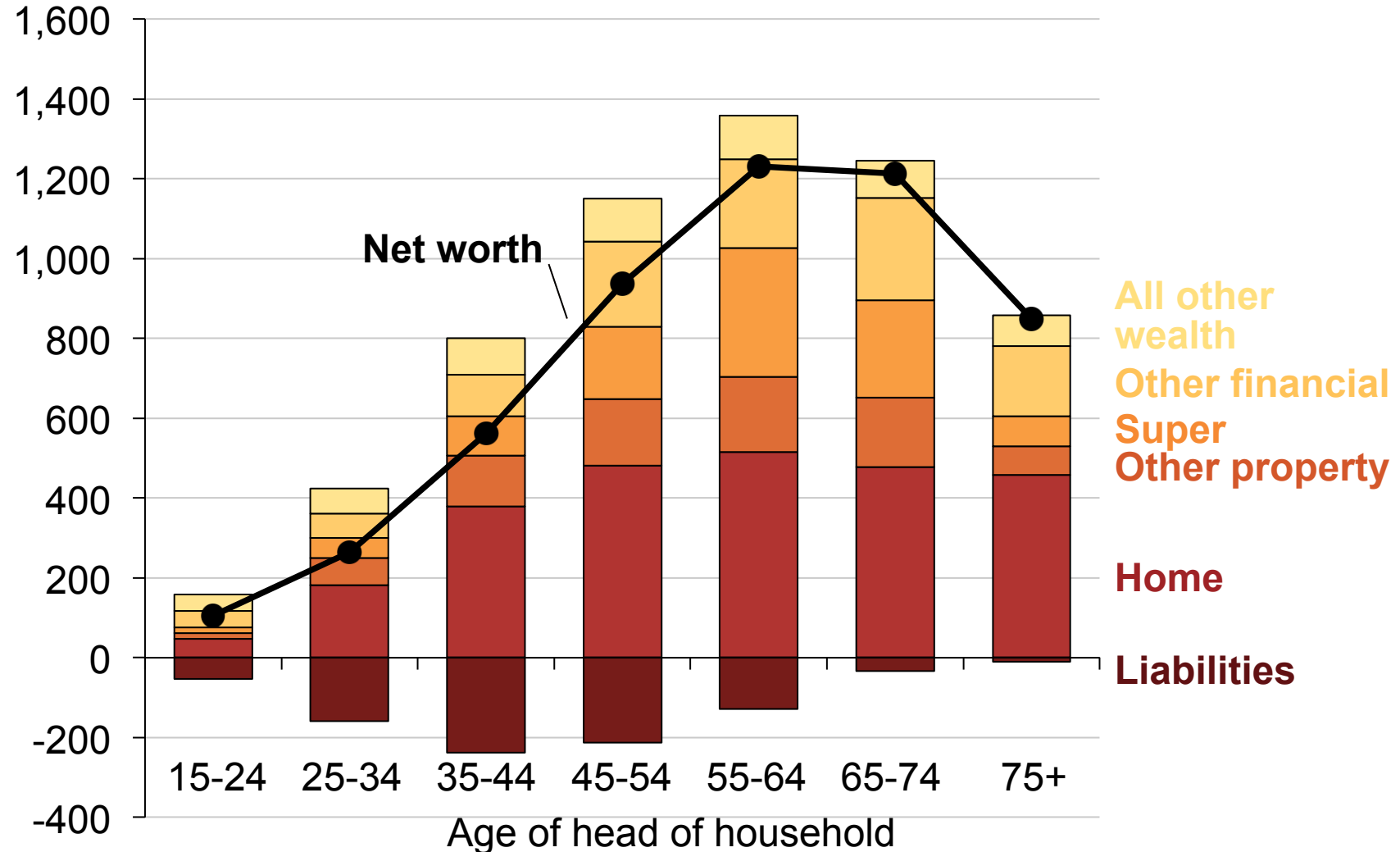
Mean wealth by age of head of household \$ thousands (\$2013-14)



Over half of this wealth is in property

Mean wealth by age of head of household

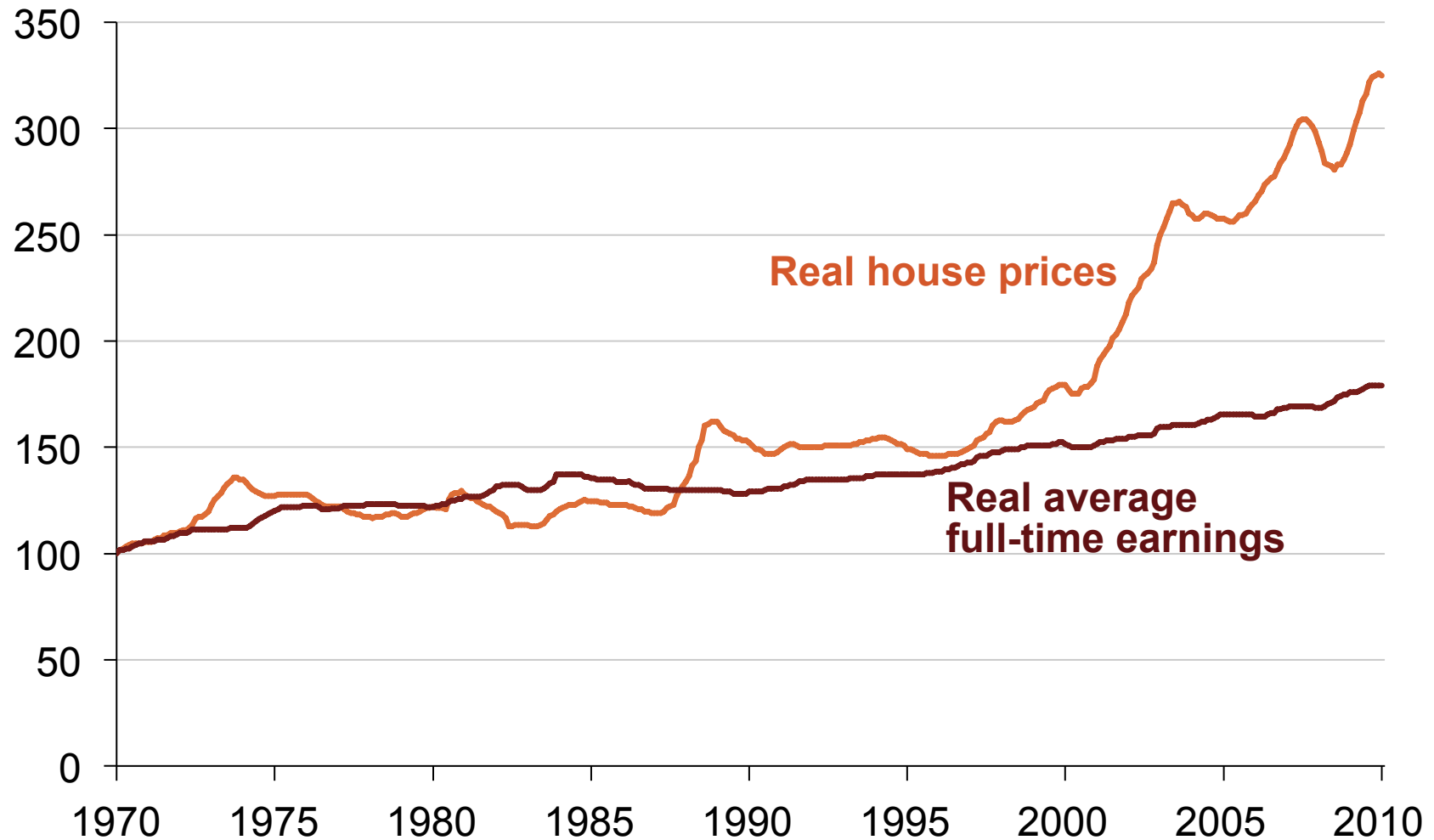
\$ thousands (\$2013-14)



House prices increased much faster than incomes

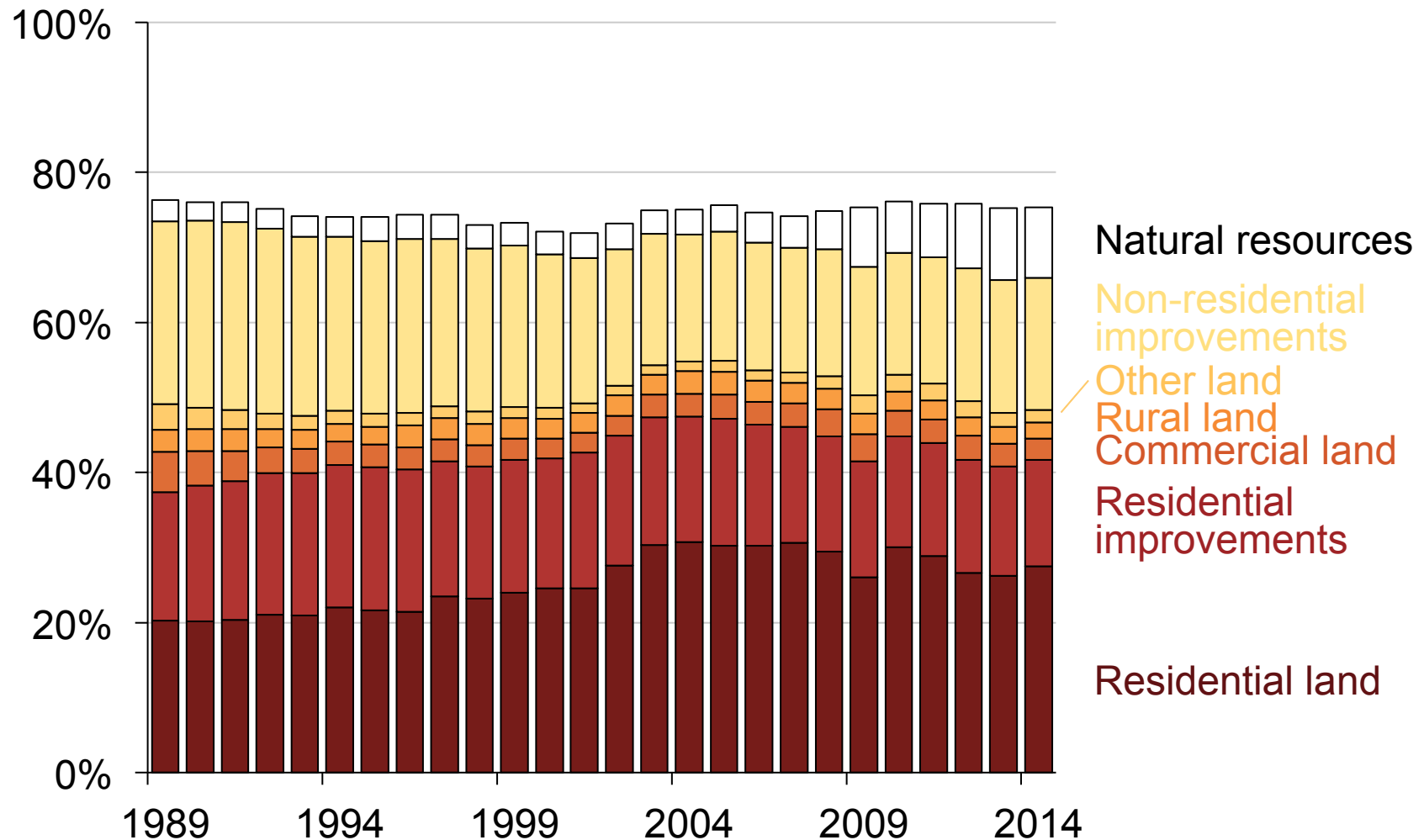
House prices and full-time weekly earnings

Index: 1970 = 100



Residential land accounts for a growing share of national assets

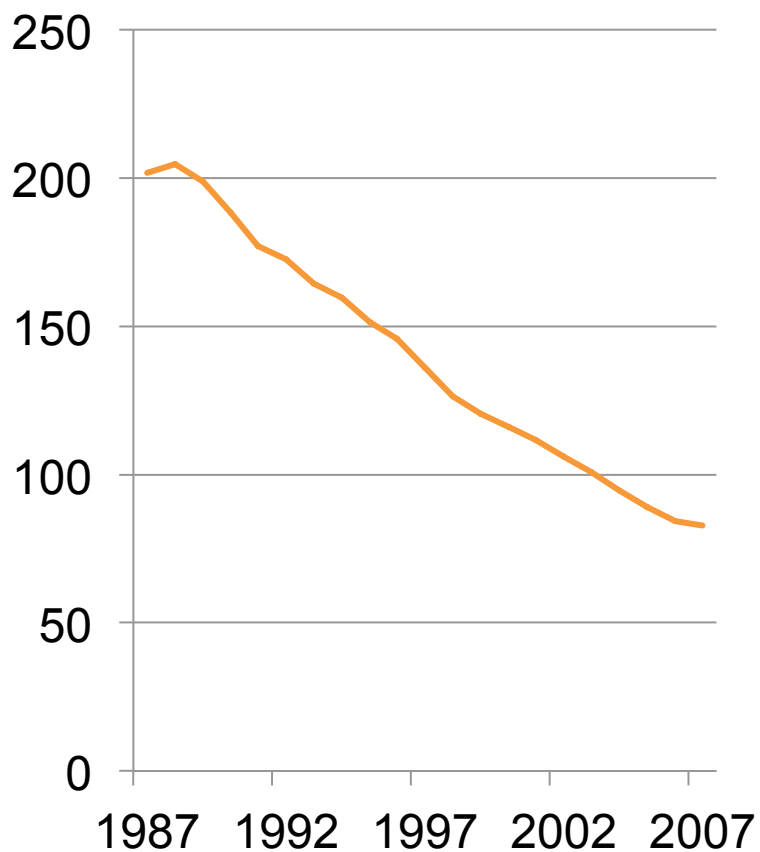
Share of national assets
1989 to 2014, per cent



Source: Grattan analysis of ABS National Accounts 2013-14

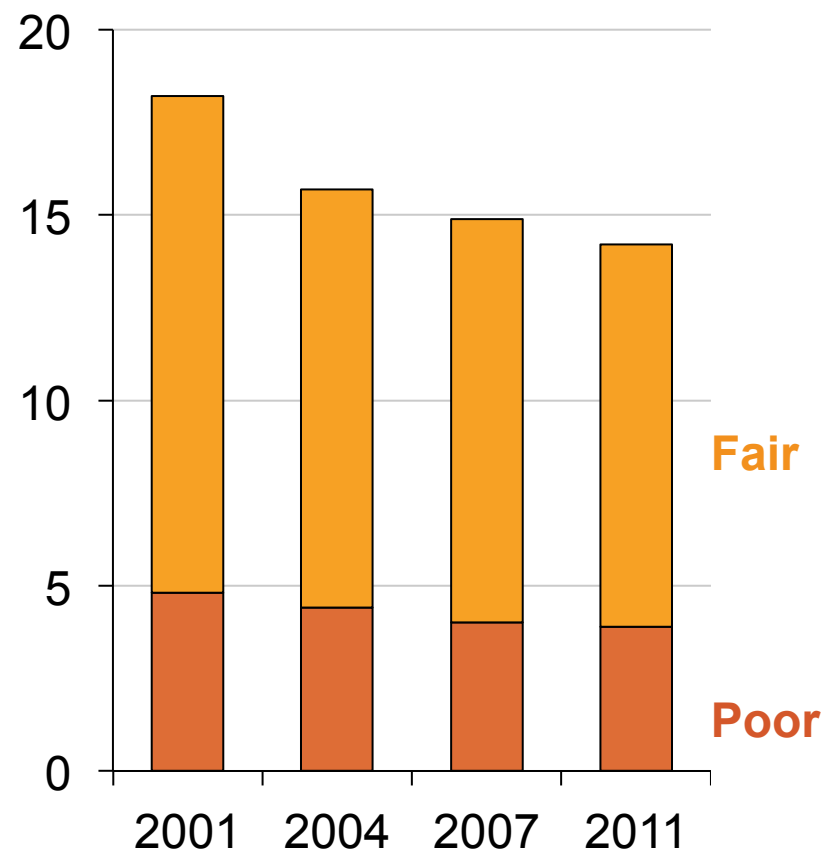
Health improved

Amenable mortality
deaths per 100,000 population



Source: AIHW

Self-reported health status
Percentage of population in lowest two categories ("fair" or "poor")



Source: ABS

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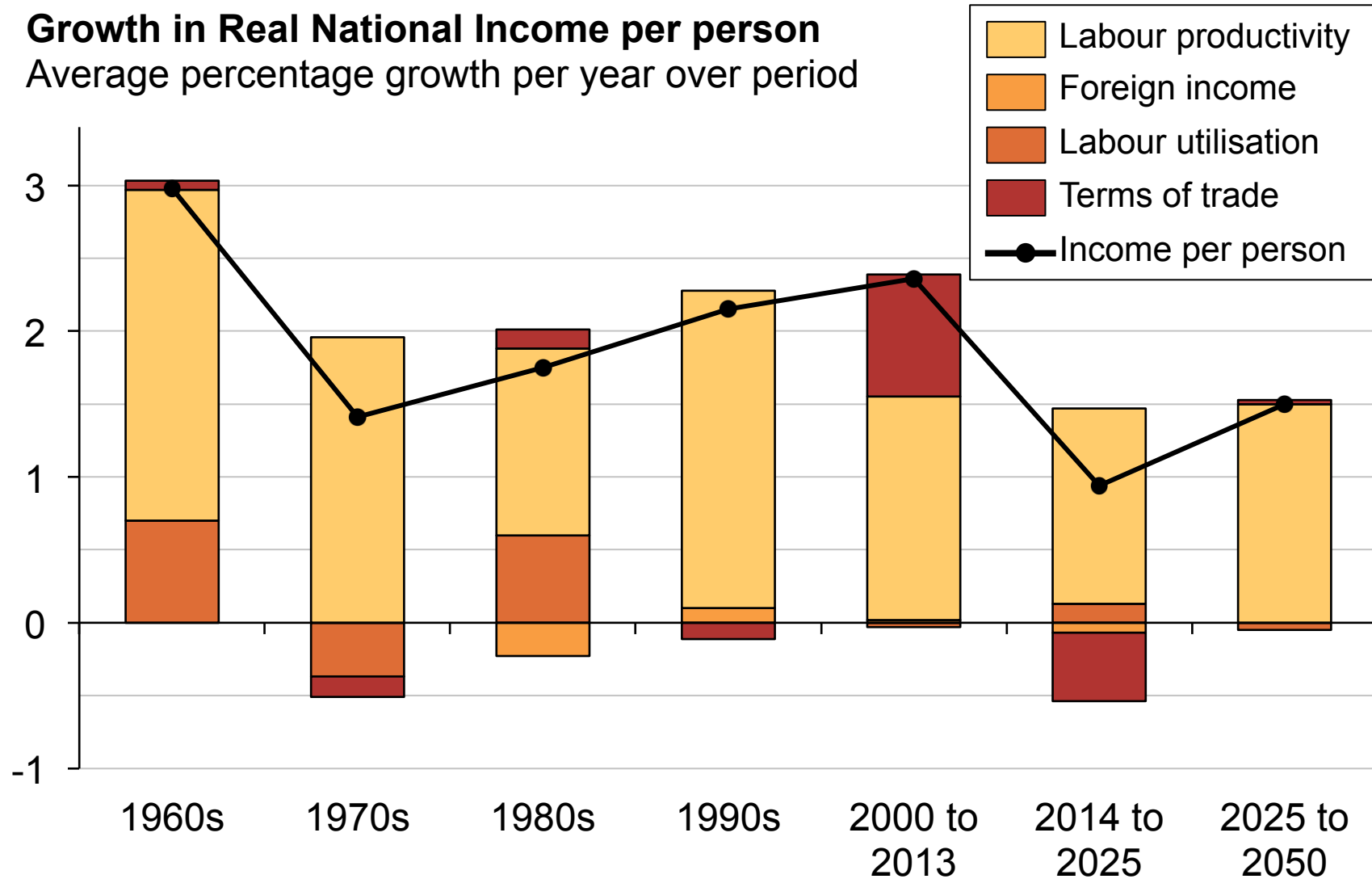
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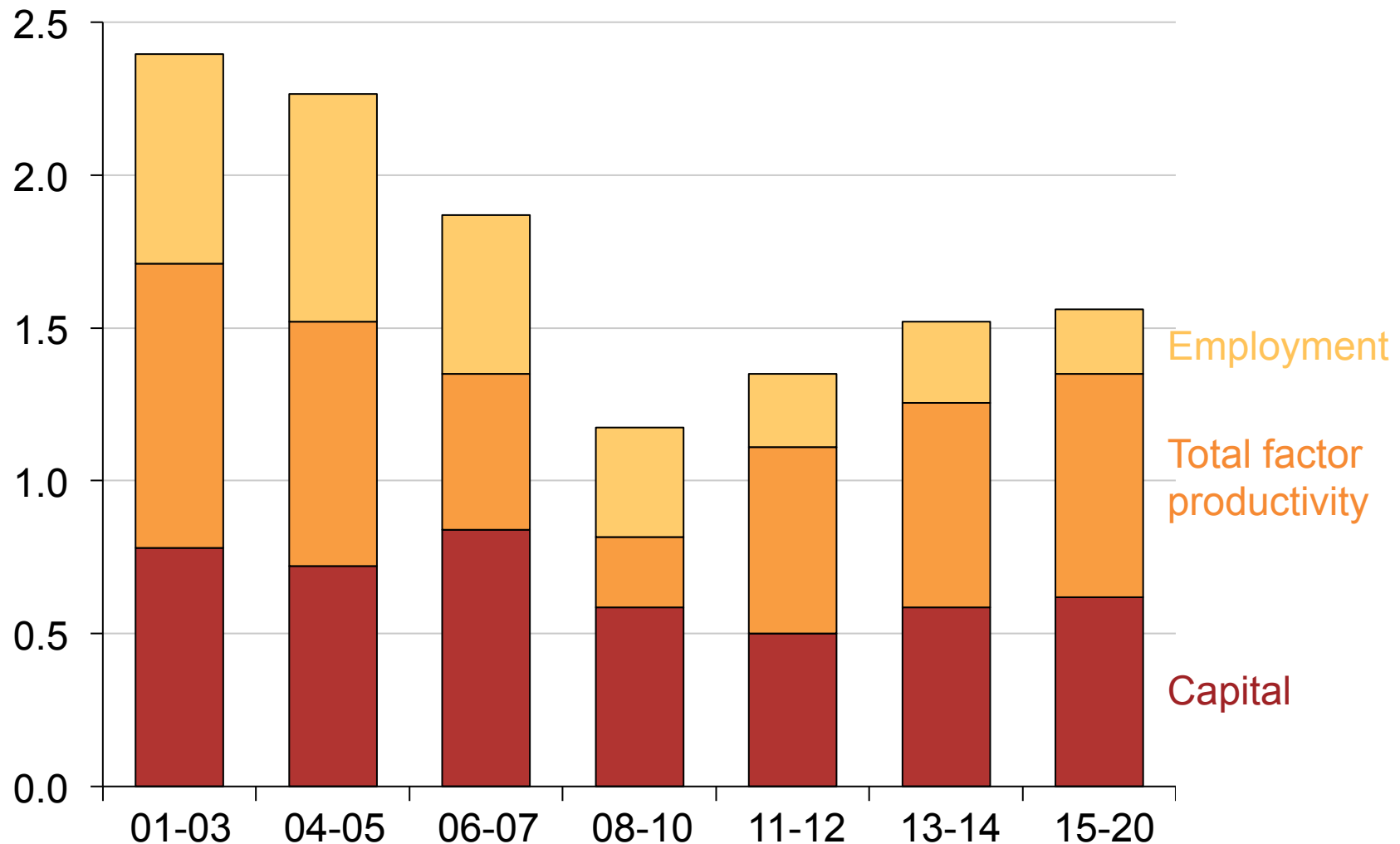
Economic growth is likely to be slower

Growth in Real National Income per person
Average percentage growth per year over period



Trend economic growth has slowed across the developed world

Potential output growth of developed economies % per year

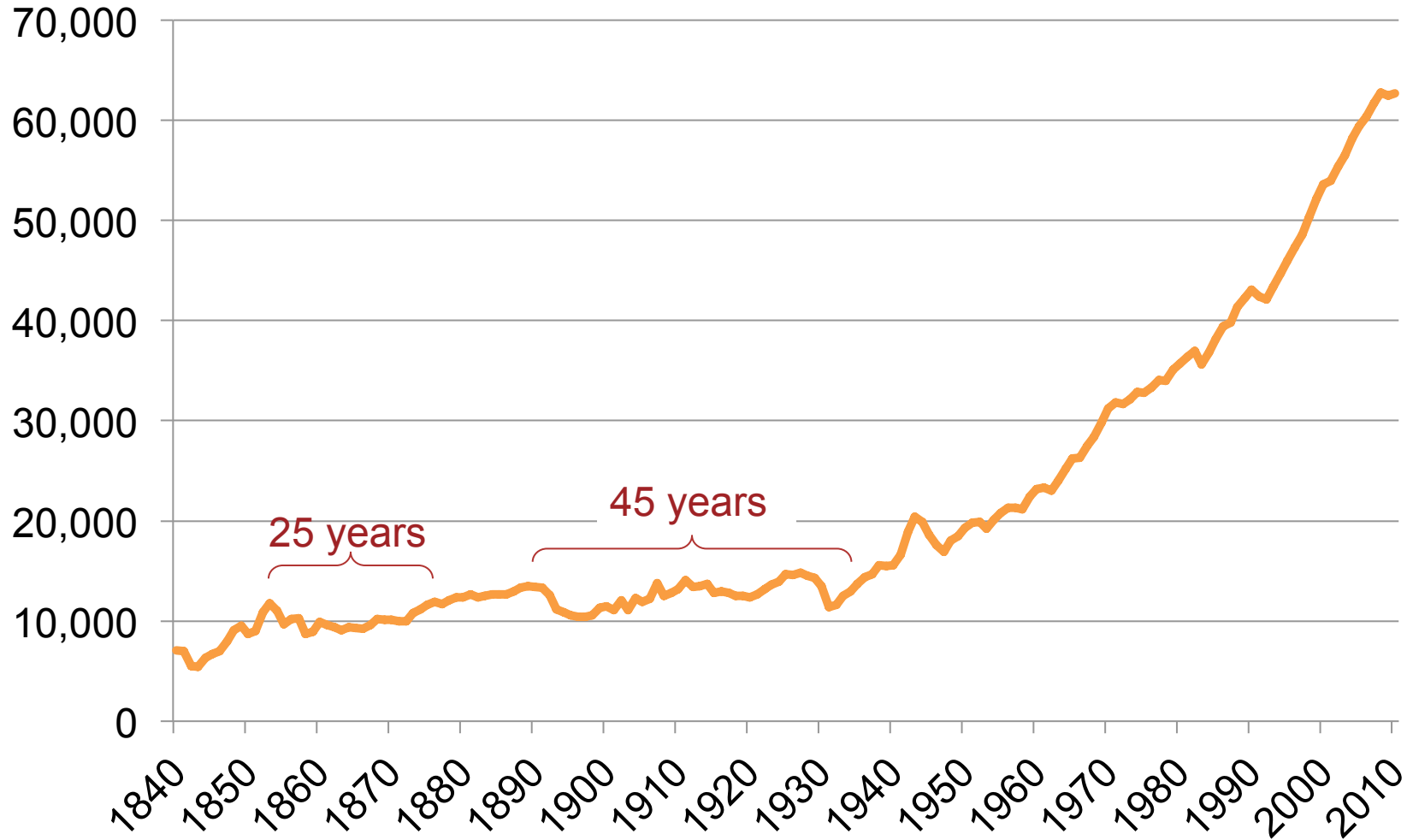


Source: Grattan Institute, *Fiscal challenges for Australia*

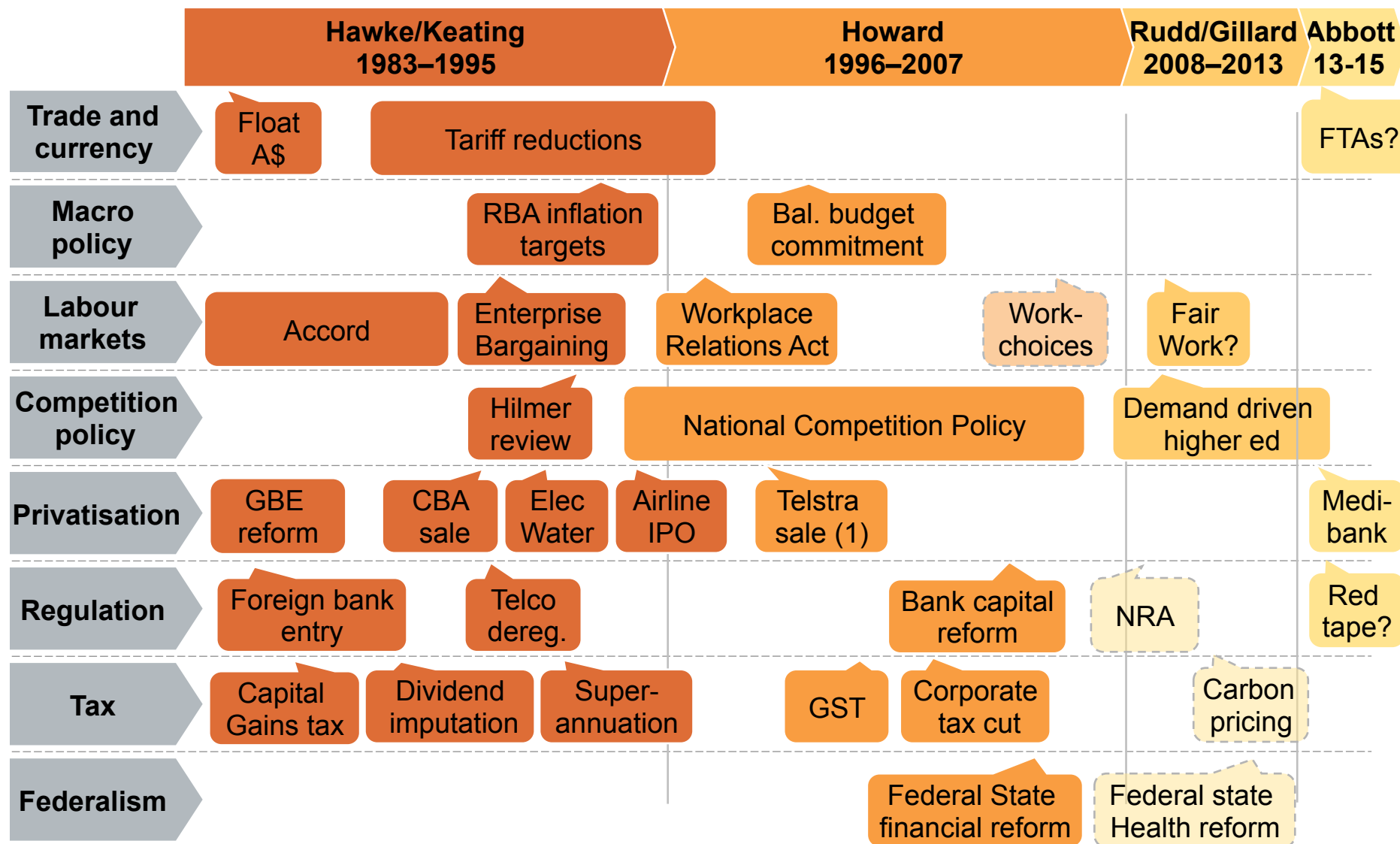
Historically there have been long periods of little income growth in Australia

Real per capita incomes

\$ 2010



Australia made more tough economic choices when times were tougher

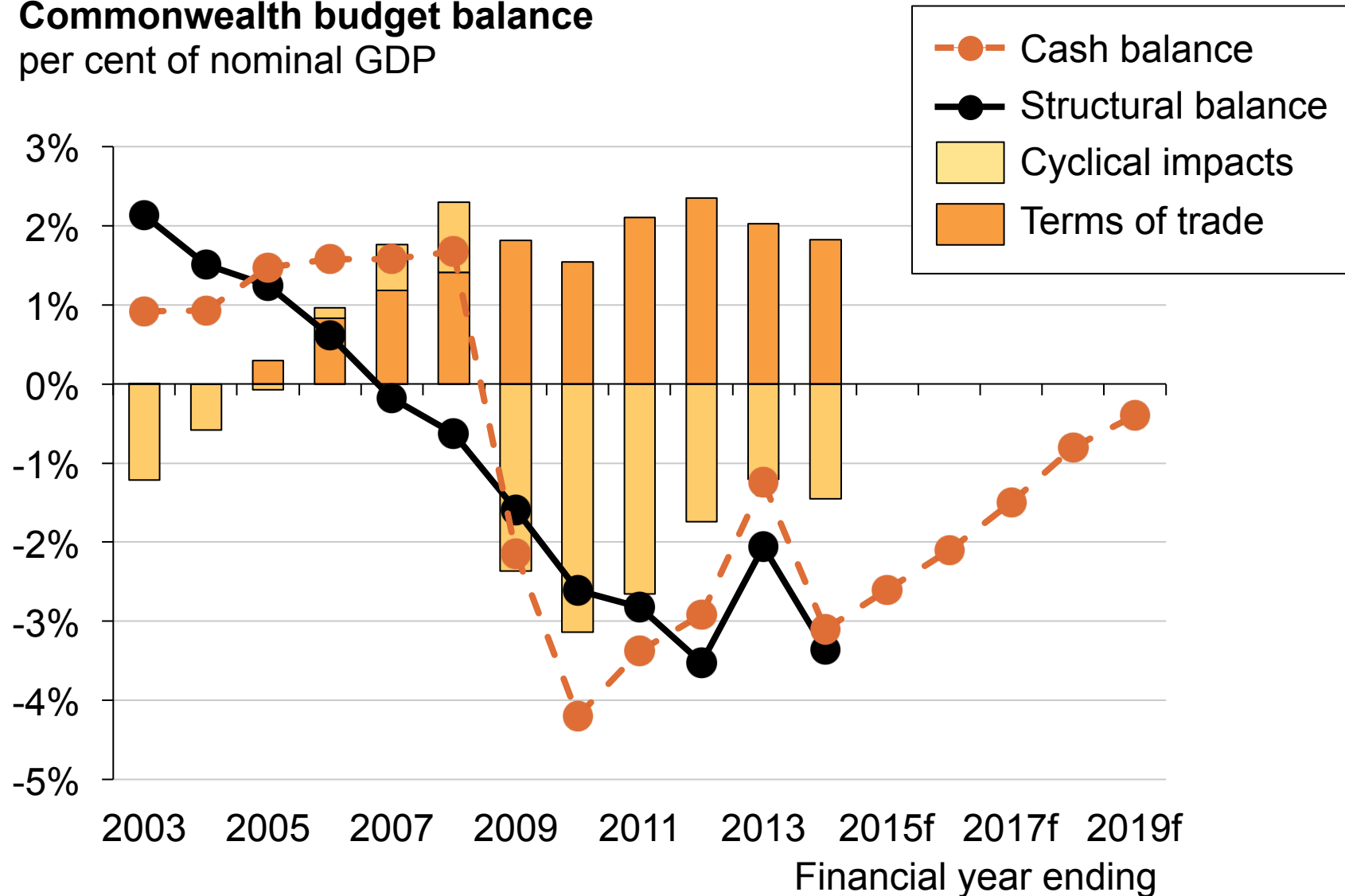


Note: The NRA is a broad set of microeconomic reforms largely focused on public sector efficiencies

Source: Access Economics; The Reform Dividend; 1983-2004—Calculating the Payout; The Economist, Special report Australia, 28 May 2011; George Megalogenis, The Australian Moment, 2012

The Commonwealth's budget problems were masked by GFC and mining boom

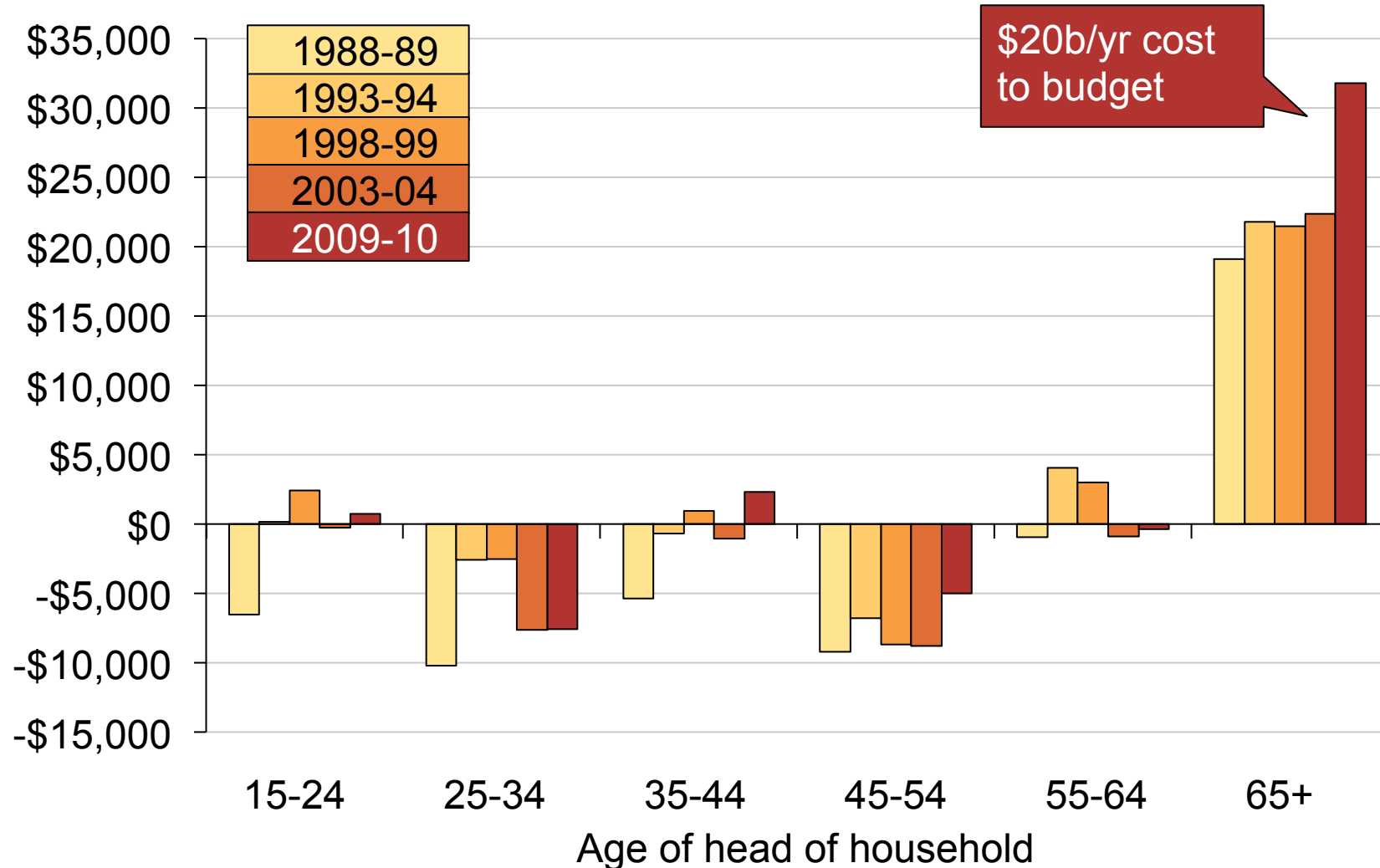
Commonwealth budget balance
per cent of nominal GDP



Note: Cash balance is equal to receipts minus payments, minus Future Fund income, (under 0.25 per cent of GDP)
 Source: Grattan Institute, *Fiscal challenges for Australia*

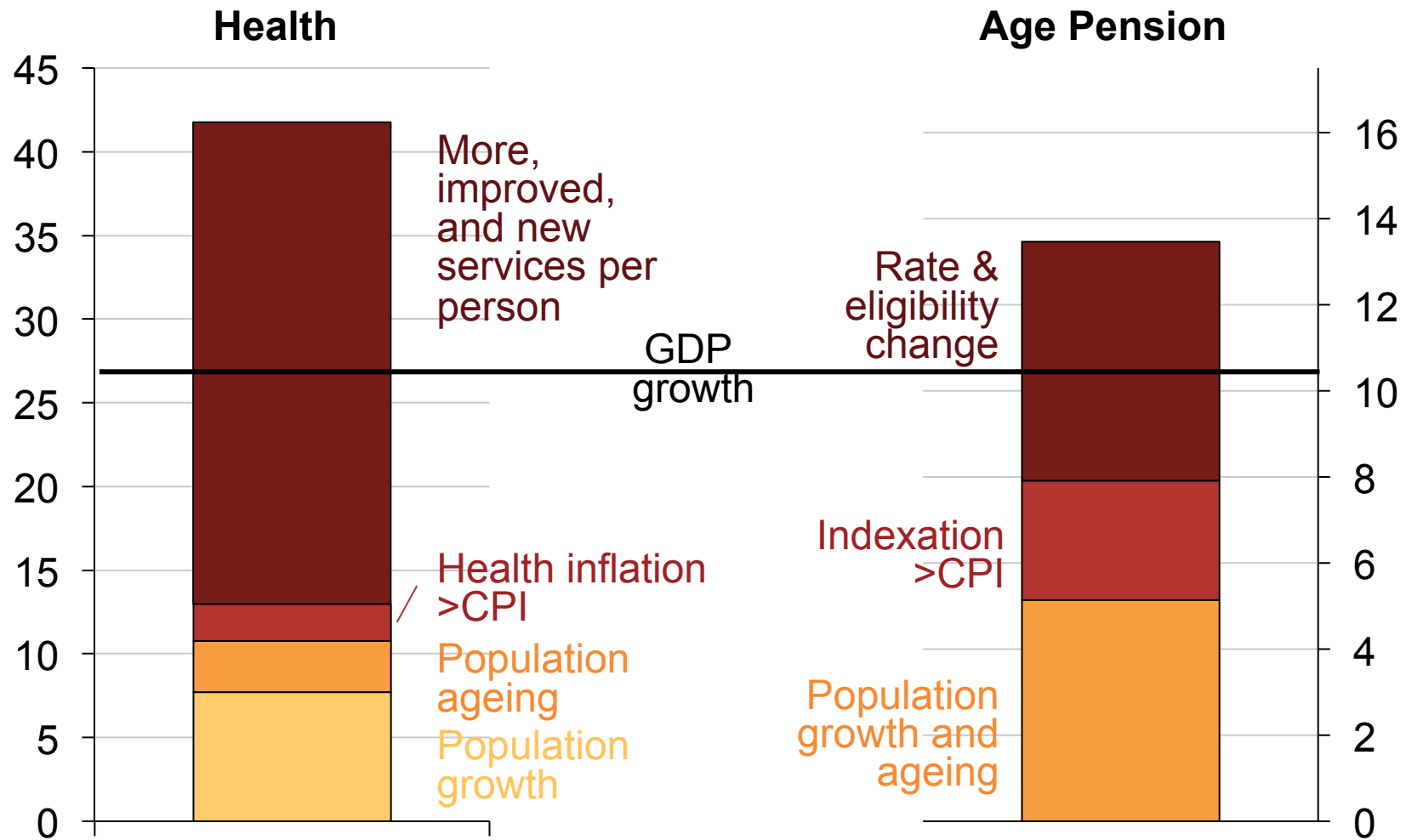
Older households are taking much more from government

Average net benefits per household (government payments, less tax)
2010\$



Policy choices, not population ageing, drove health and pension spending increases

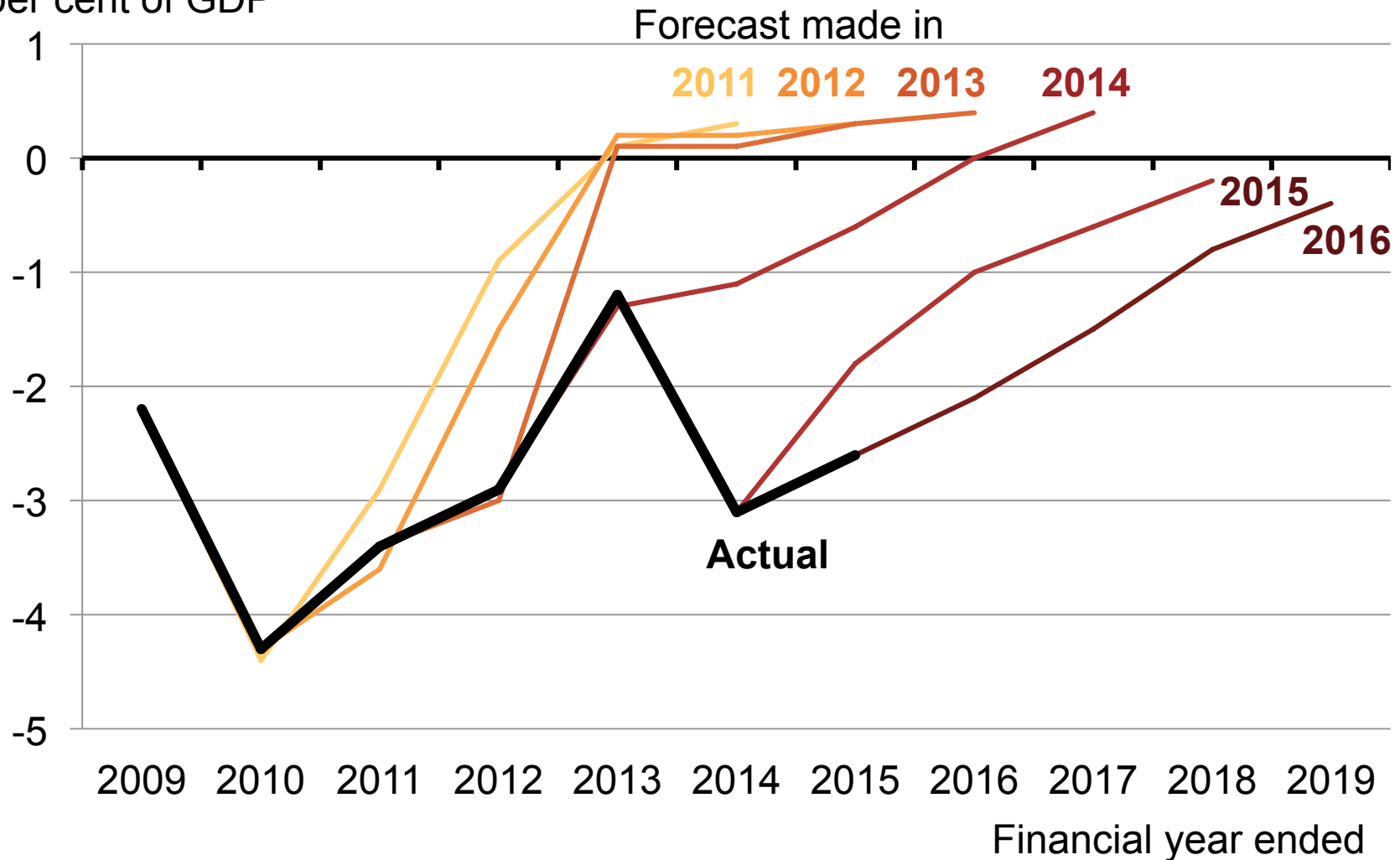
Real increase in expenditure 2003-2013
(\$2012 billion)



Source: Grattan Institute, *Budget Pressures 2014*

Budget repair strategies have been dominated by hope rather than tough calls

Actual and forecast Commonwealth underlying cash balance per cent of GDP



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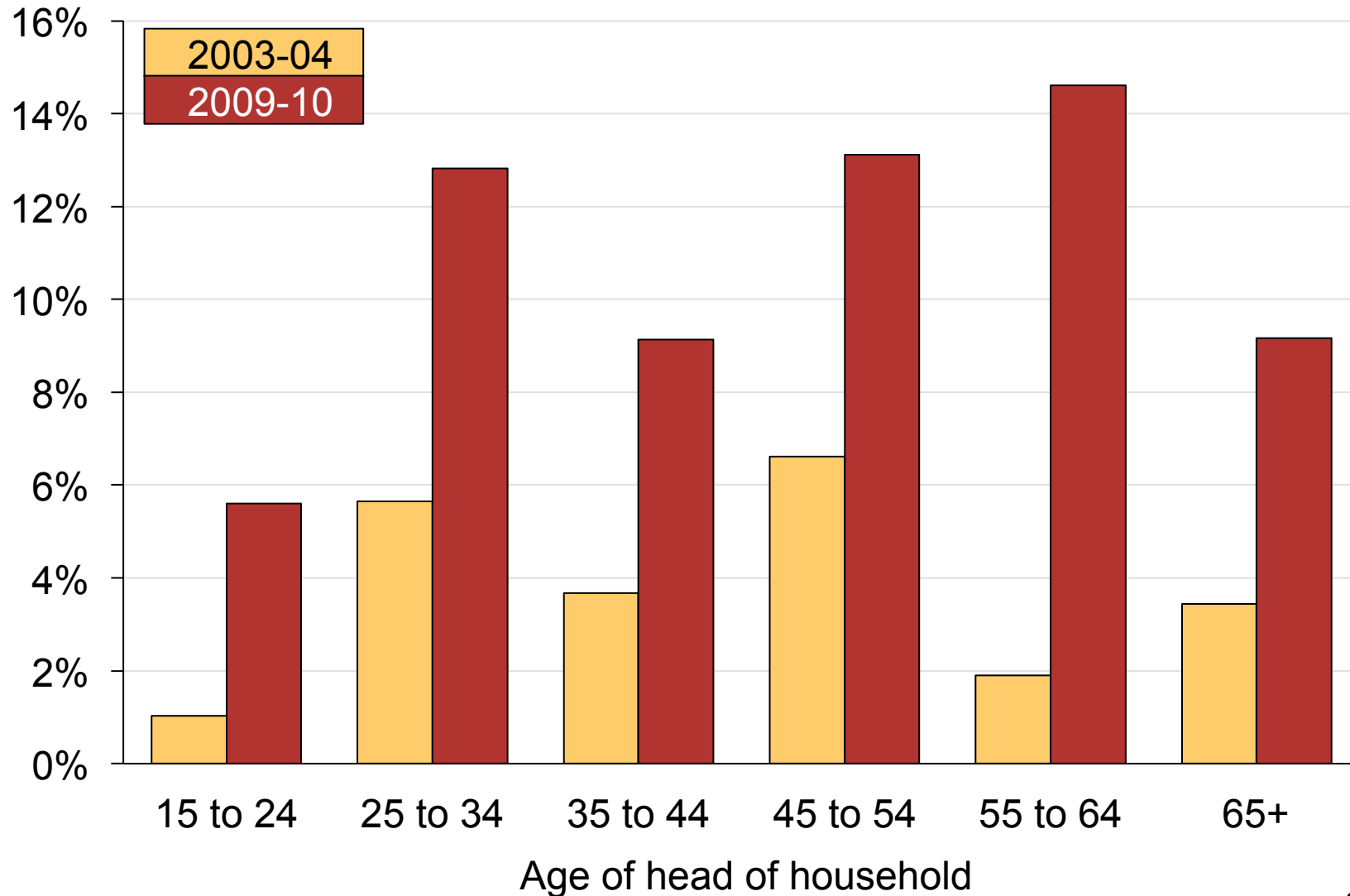
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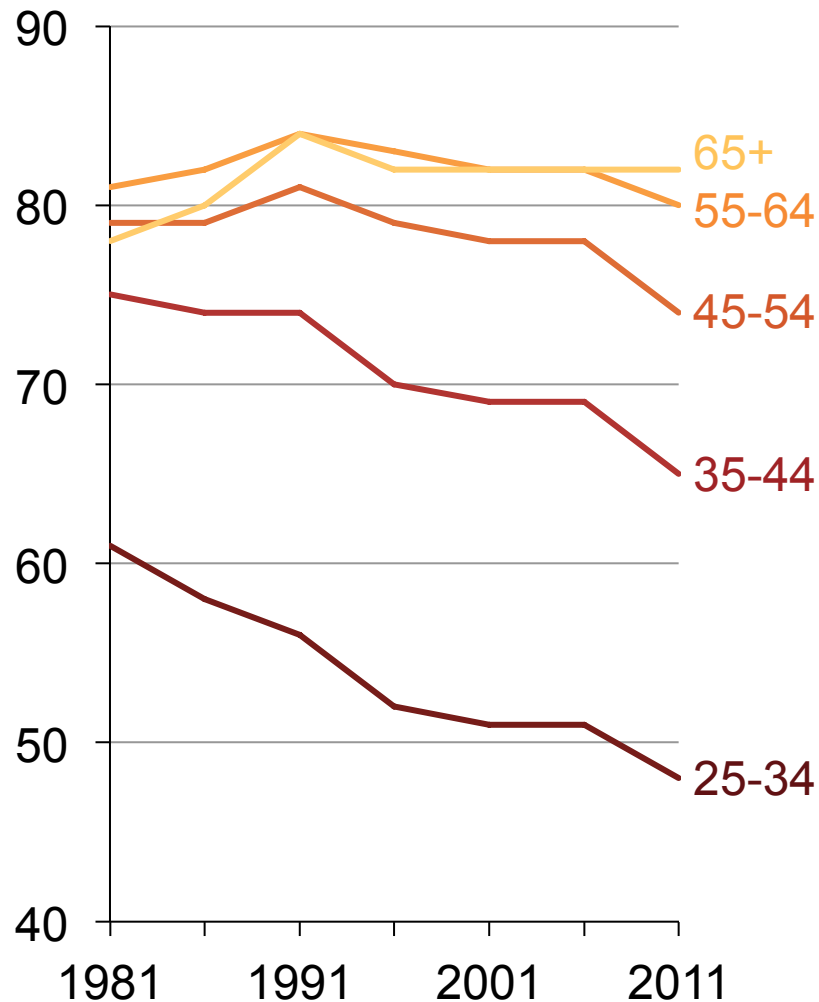
All households are saving more

Savings as a proportion of disposable income, per cent

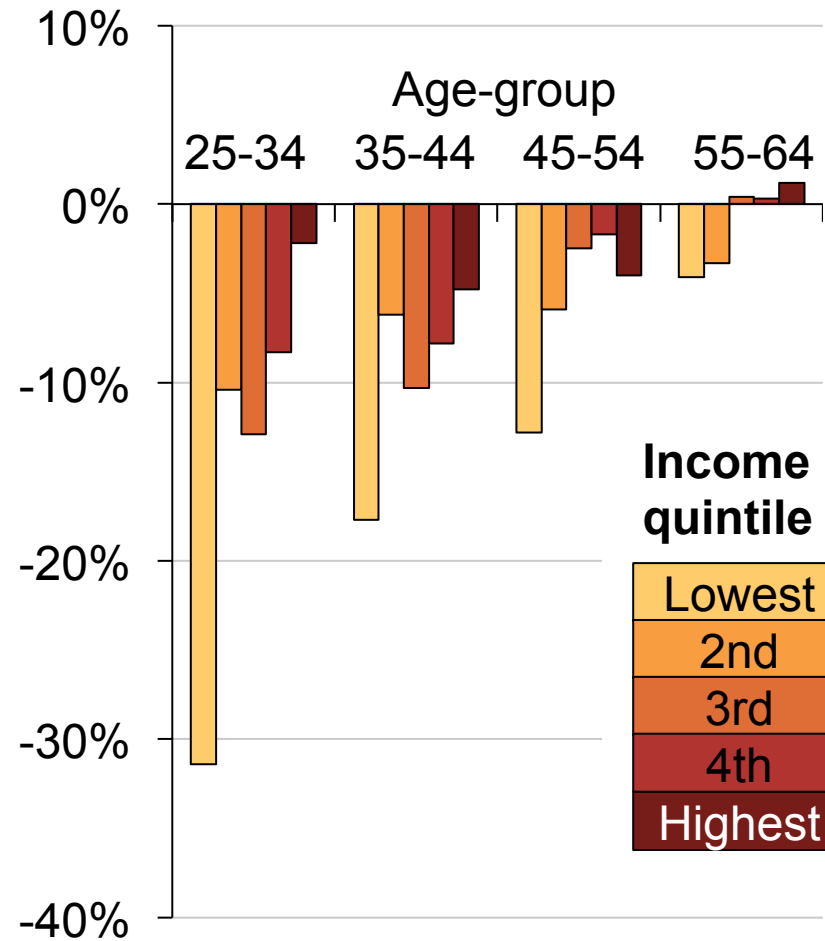


Home ownership is falling for younger ages, particularly low incomes

Home ownership rate by age
Per cent



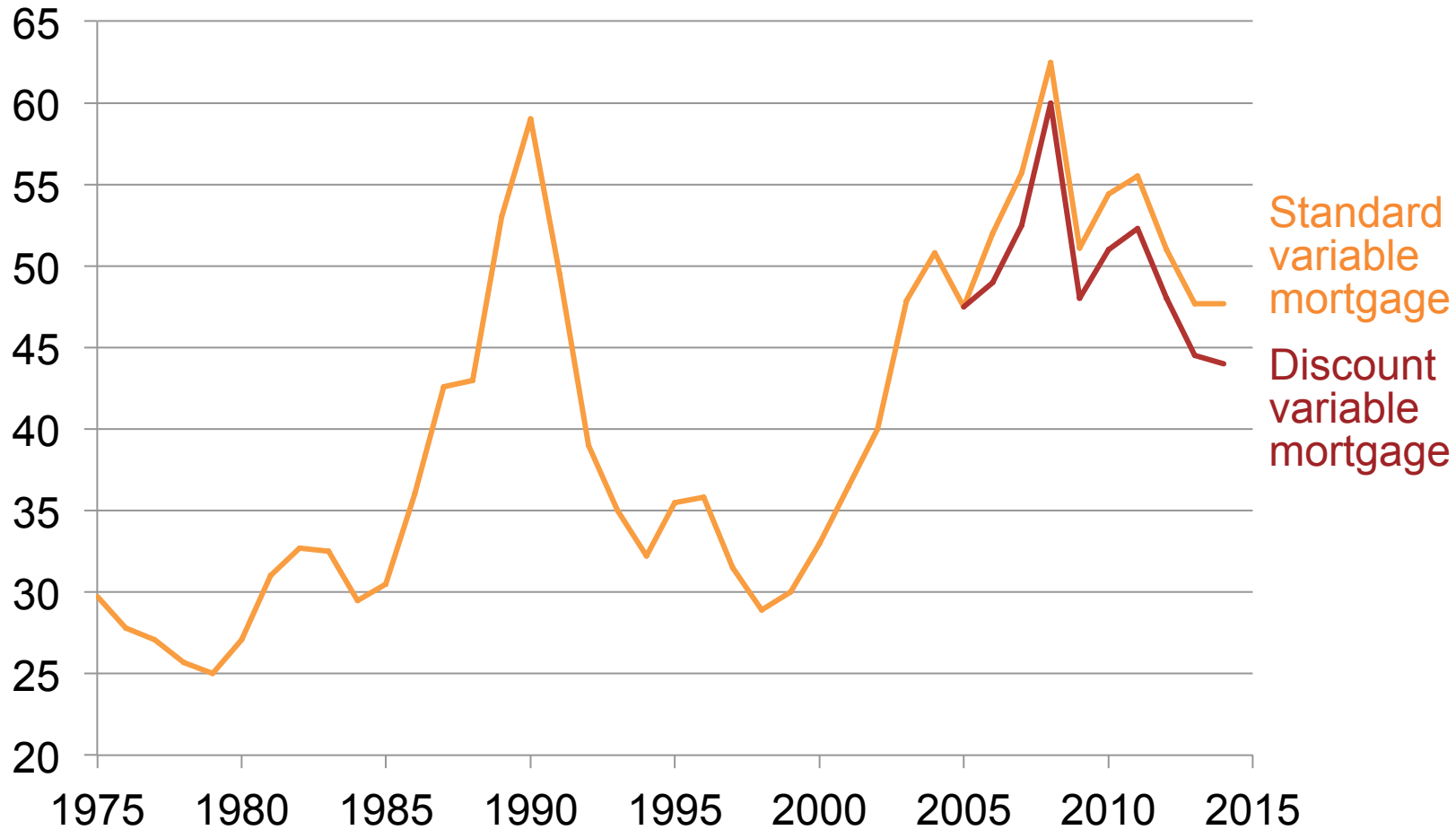
Percentage point change in home ownership rates, 1981 to 2011



Source: Grattan Institute, *Wealth of Generations*

Homes are relatively affordable – unless interest rates rise ...

Initial repayments on new mortgages as percentage of household disposable income

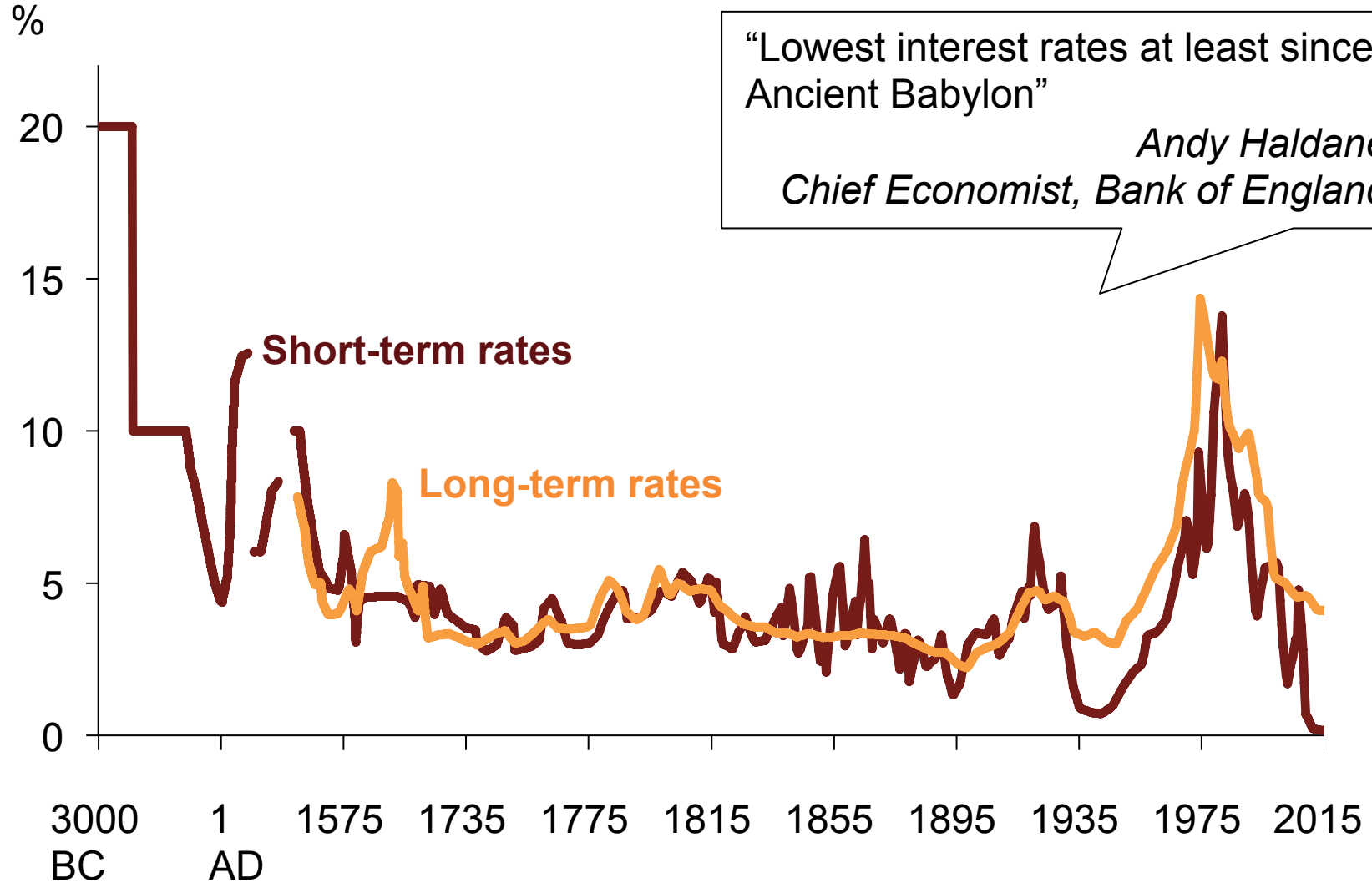


Note: Assumes 10% deposit, 25-year repayment of principal and interest on median priced house; assumes household disposable income is 1.5 times average pre-tax individual earnings

Source: Macrobusiness, based on RBA, APM Abelson & Chung

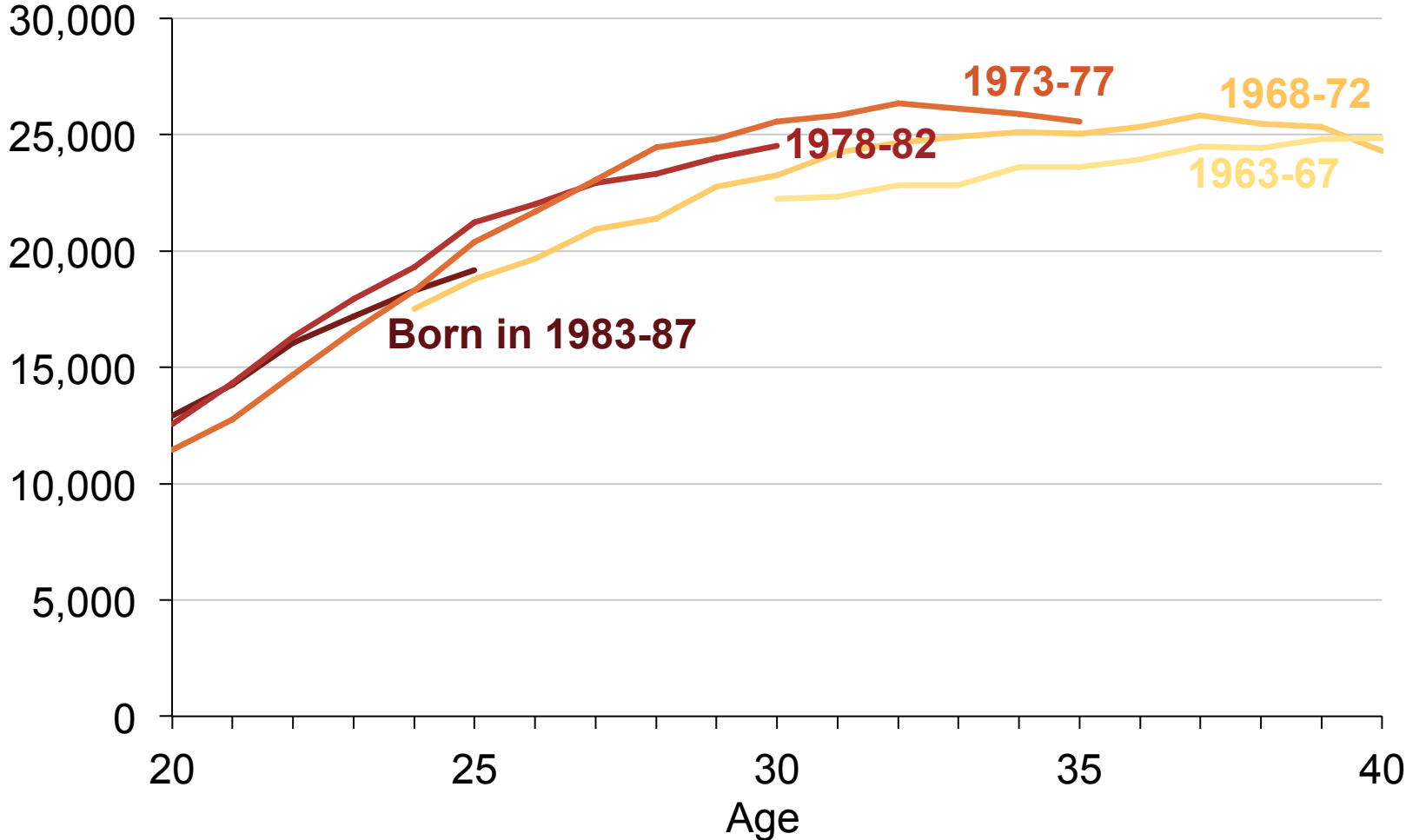
... which seems a distinct possibility

Global interest rates



Younger cohorts in the UK now earn less than their predecessors at the same age

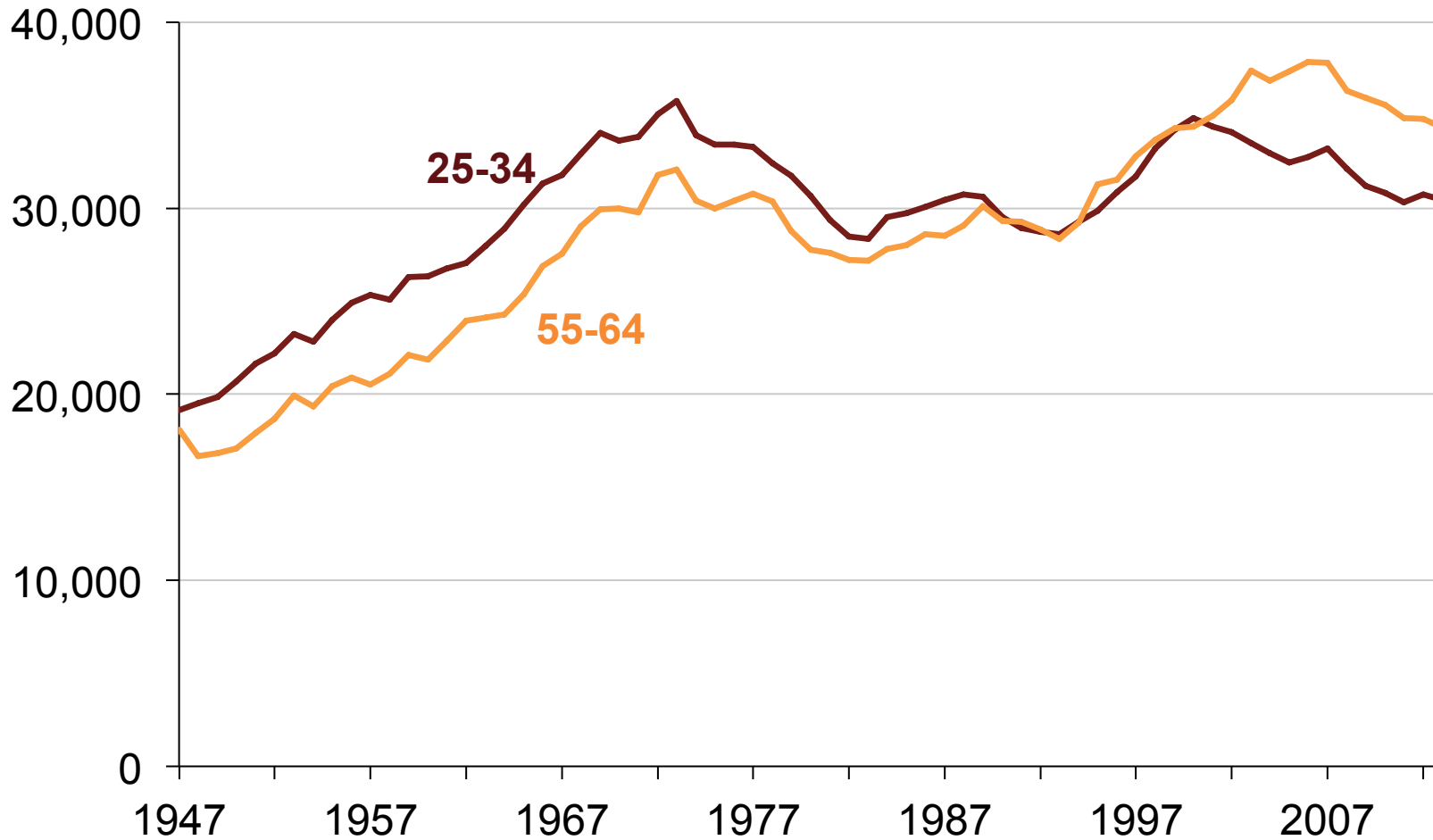
Median gross annual wages in UK
2013£



Source: Grattan Institute, *The wealth of generations*

The incomes of 24-34 year olds in the US have declined relative to older workers

Median incomes in US
2013USD



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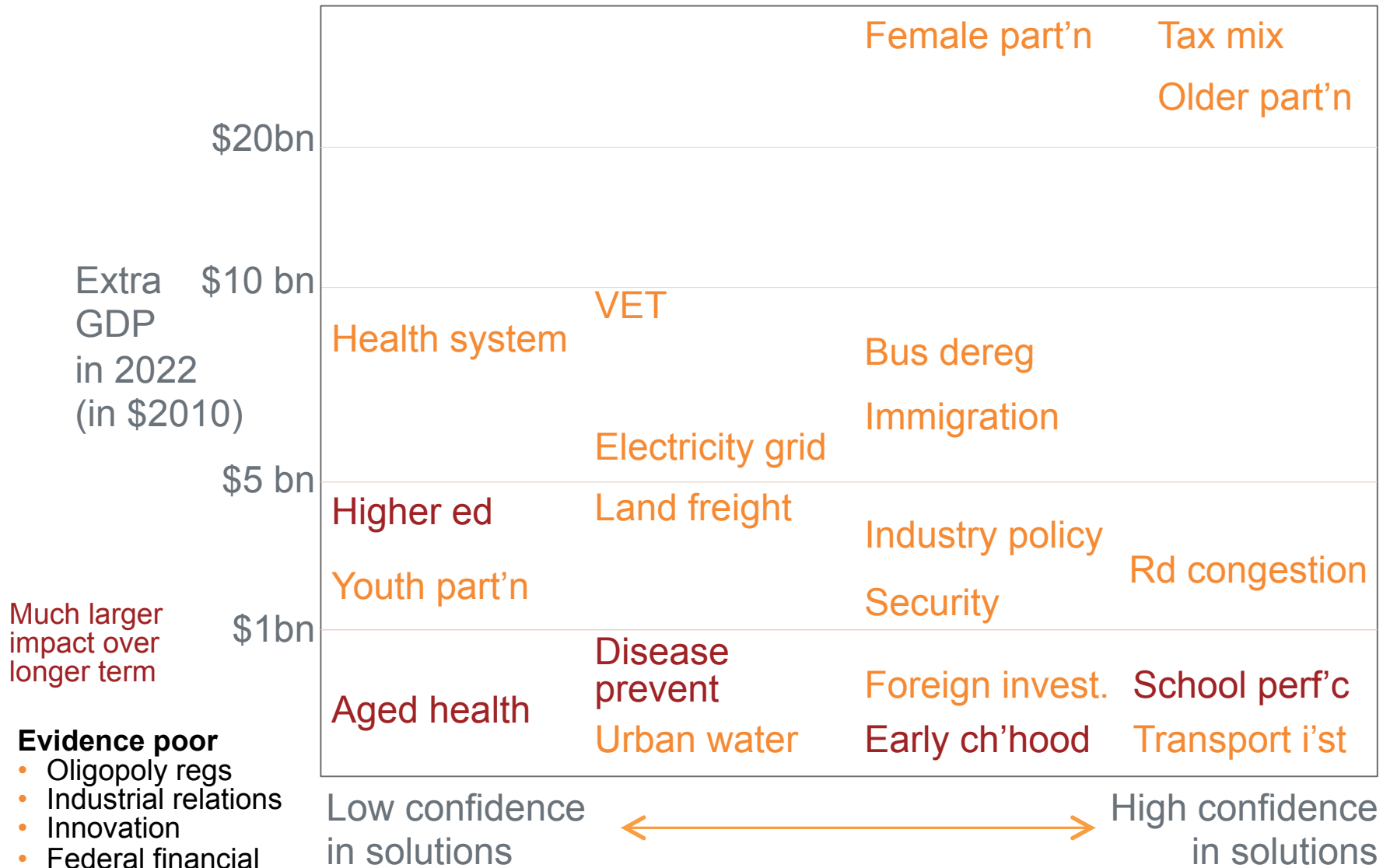
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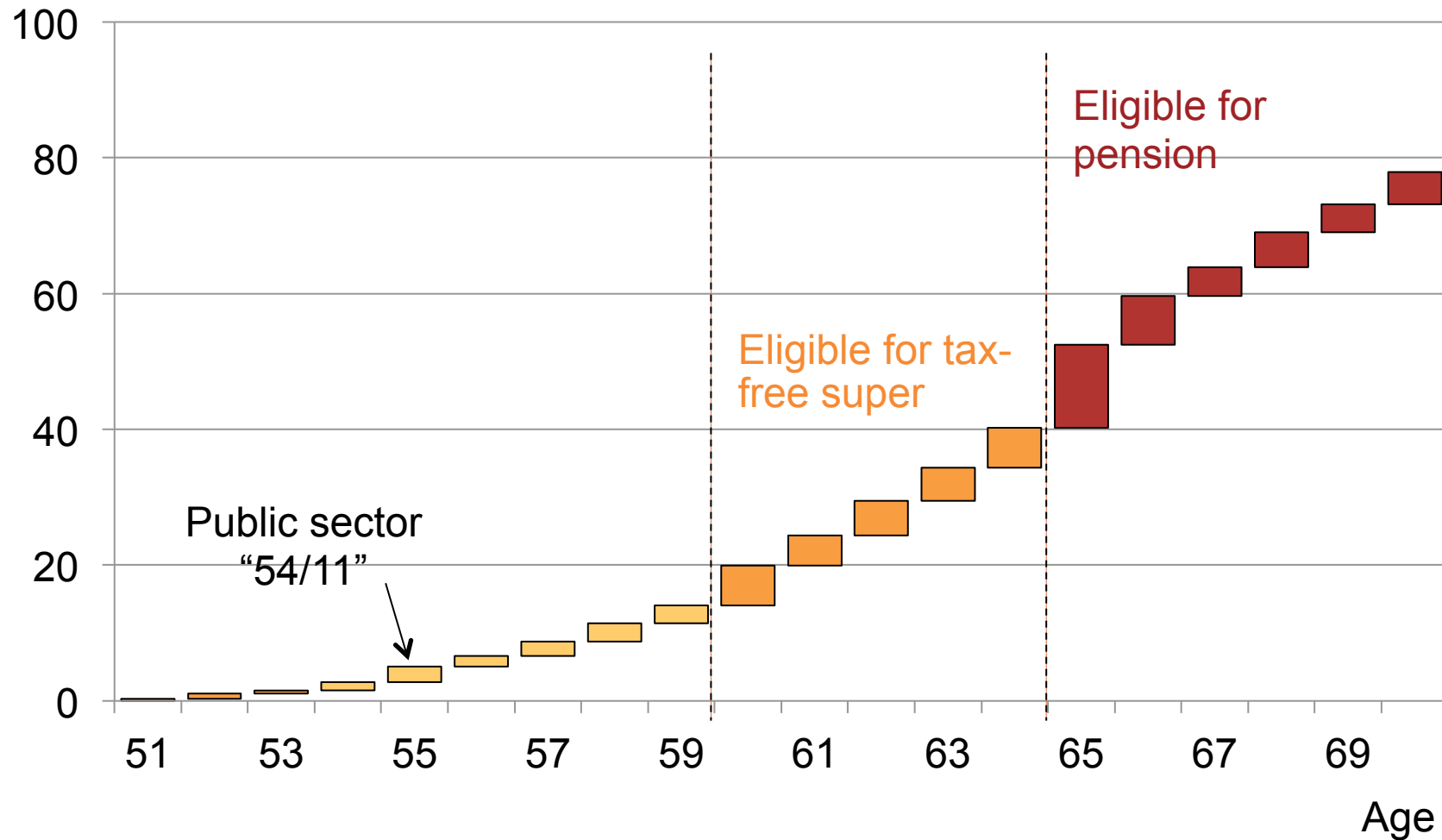
Economic growth opportunities are difficult and limited



Note: Initiatives in red likely to have much larger impact over longer term.
Source: Grattan Institute, *Game-Changers*

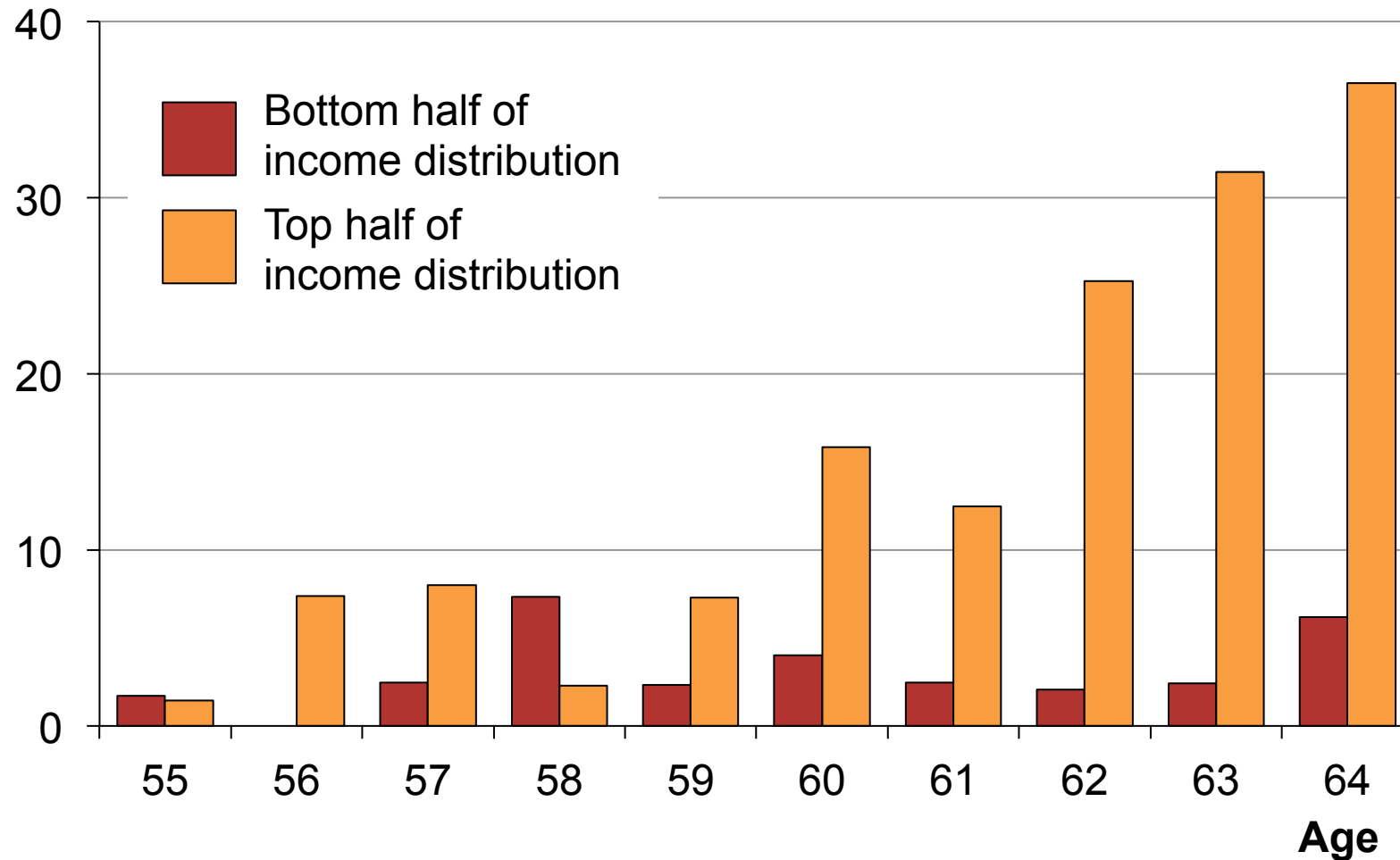
Lifting eligibility for Age Pension and tax-free super would increase retirement ages

Cumulative per cent of male labour force retiring by age



Superannuation-funded early retirement only really benefits those in the top half

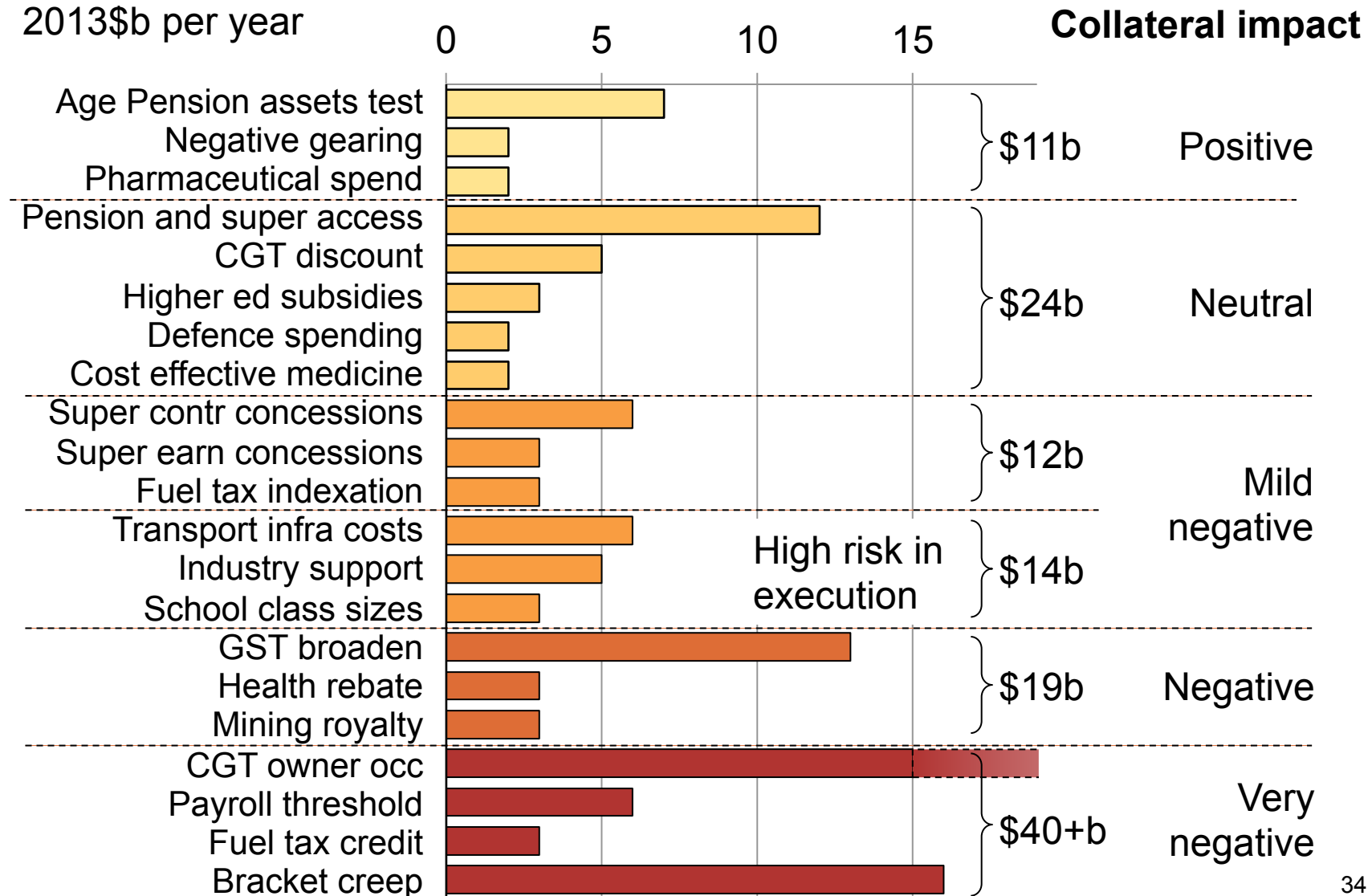
Proportion of age cohort receiving some superannuation payment



There are few options for budget repair that are both large and socially responsible

Budgetary impact of tough budget choices

2013\$b per year

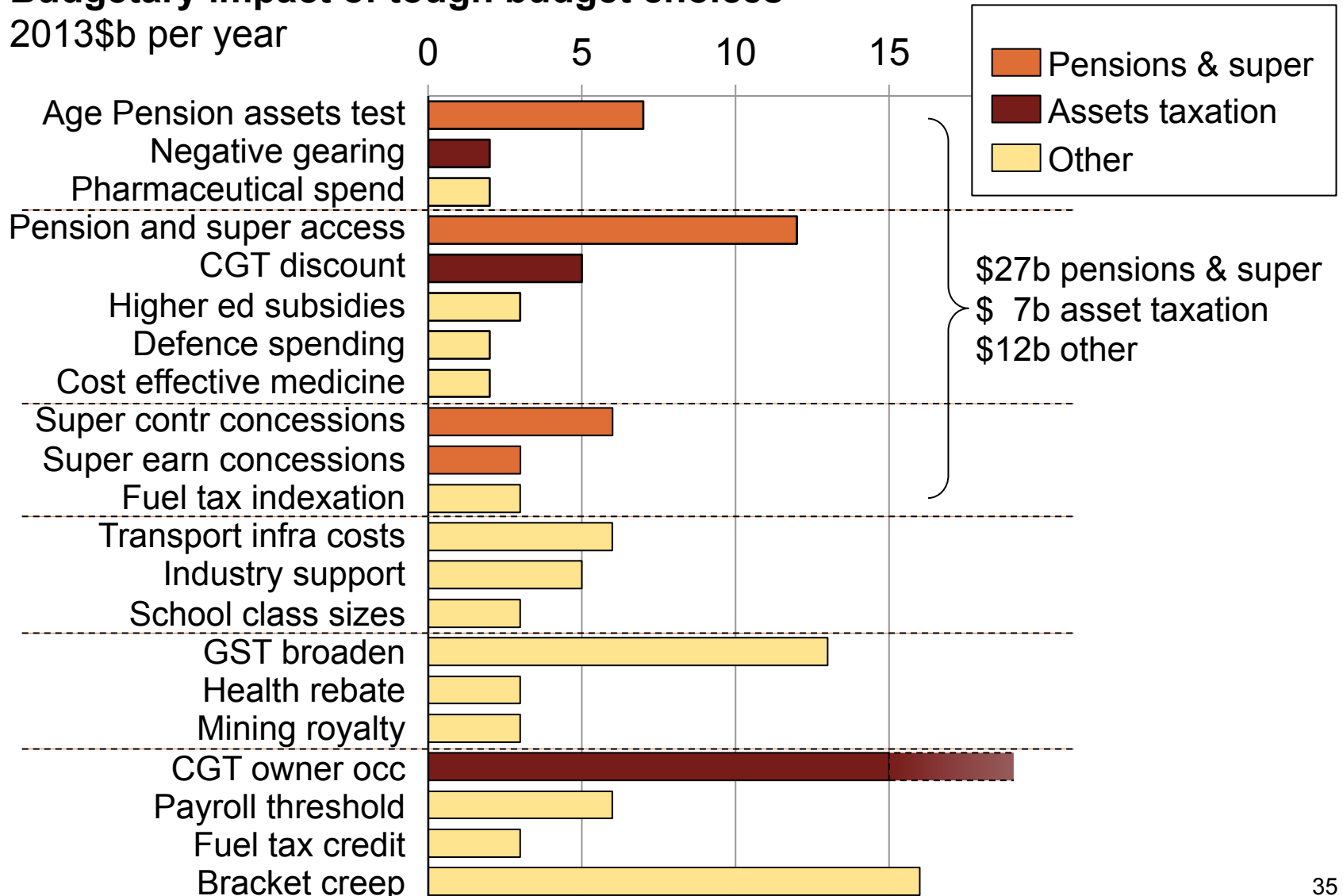


Source: Grattan Institute, *Balancing Budgets*

Better targeting of age pensions, super, and asset taxation dominate the attractive options

Budgetary impact of tough budget choices

2013\$b per year

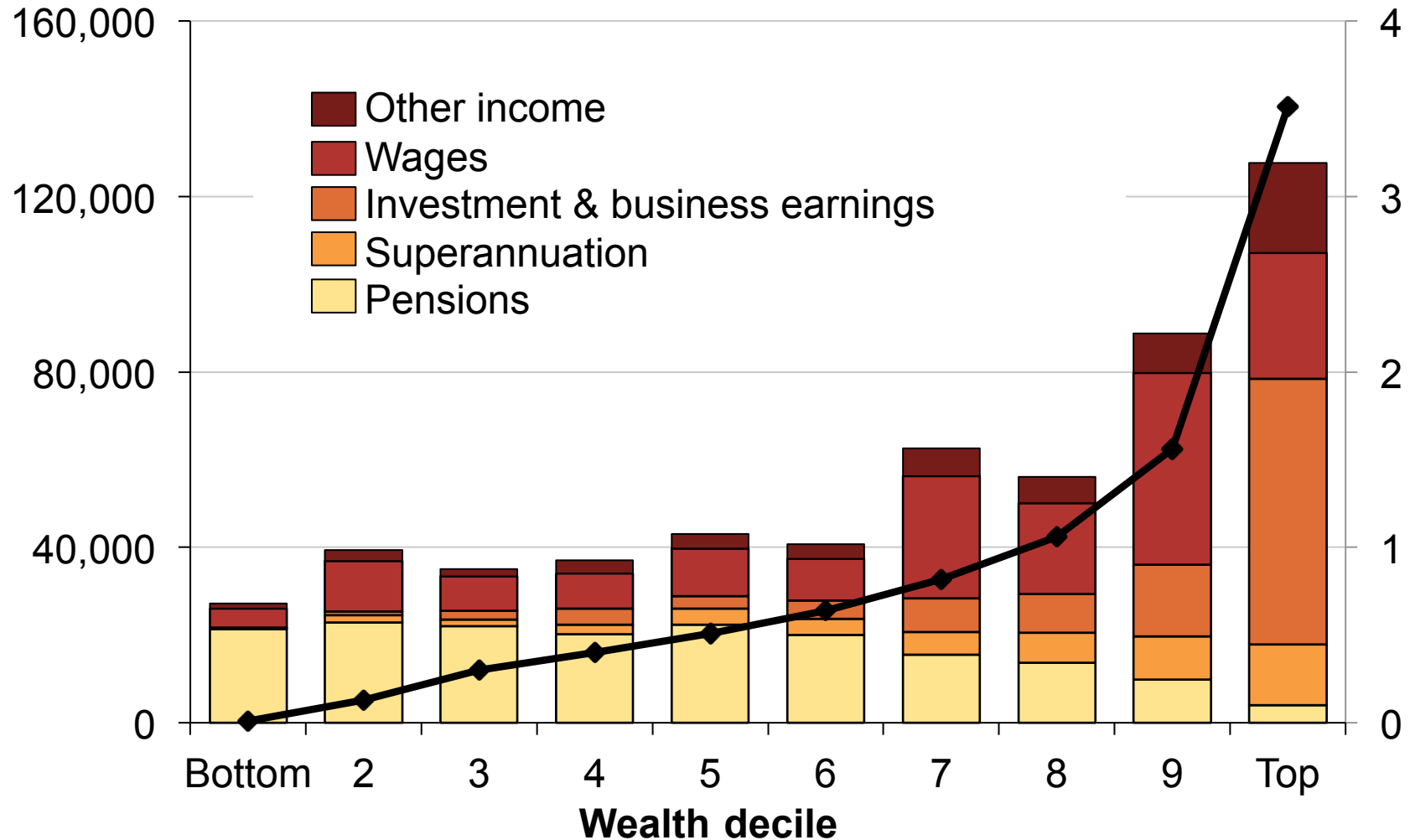


Source: Grattan Institute, *Balancing Budgets*

The most wealthy retirees earn more from superannuation – and even more elsewhere

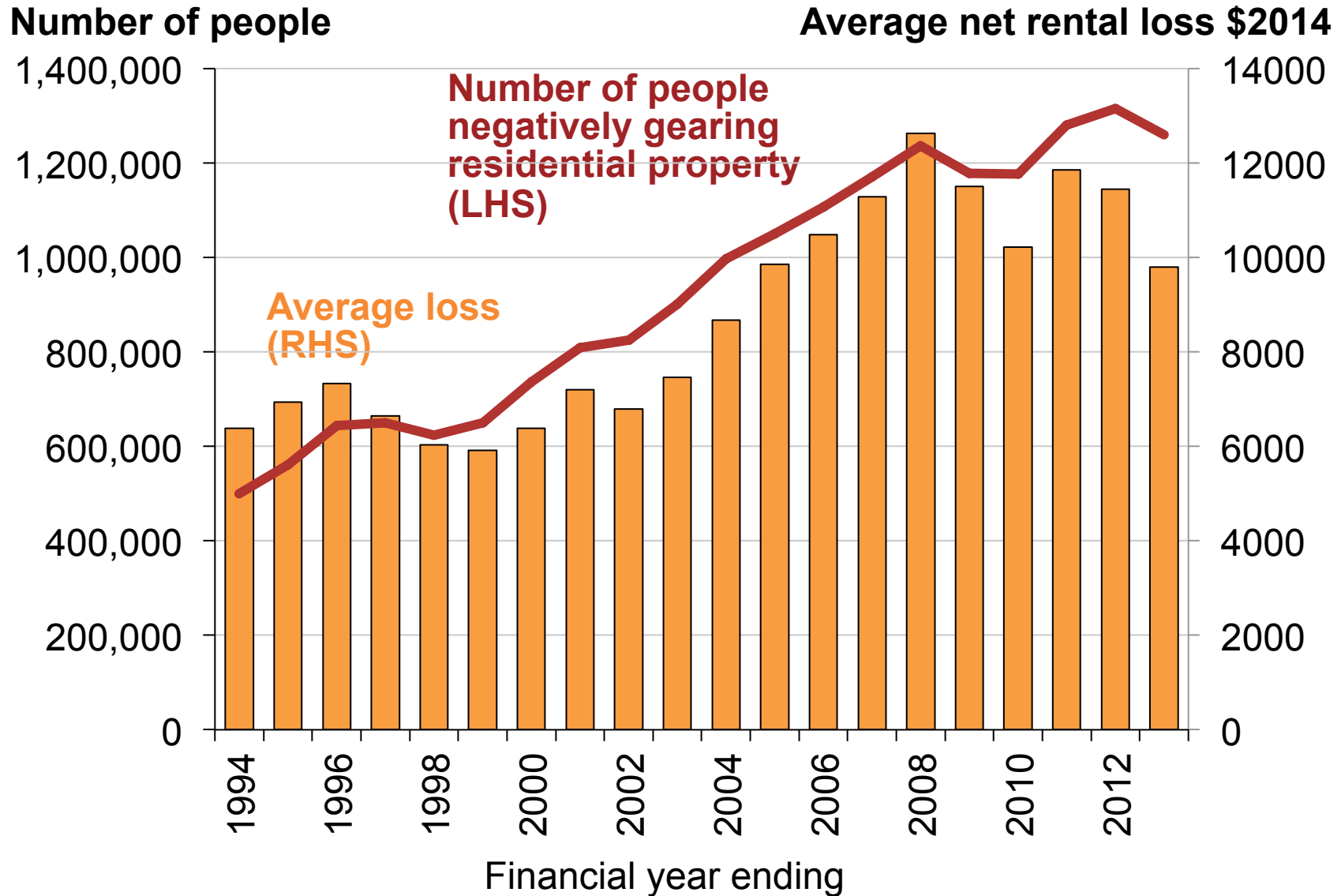
Annual income, people aged >65
2010\$

Wealth
2010\$ m



Source: HILDA survey 2009-10; Grattan Institute analysis.

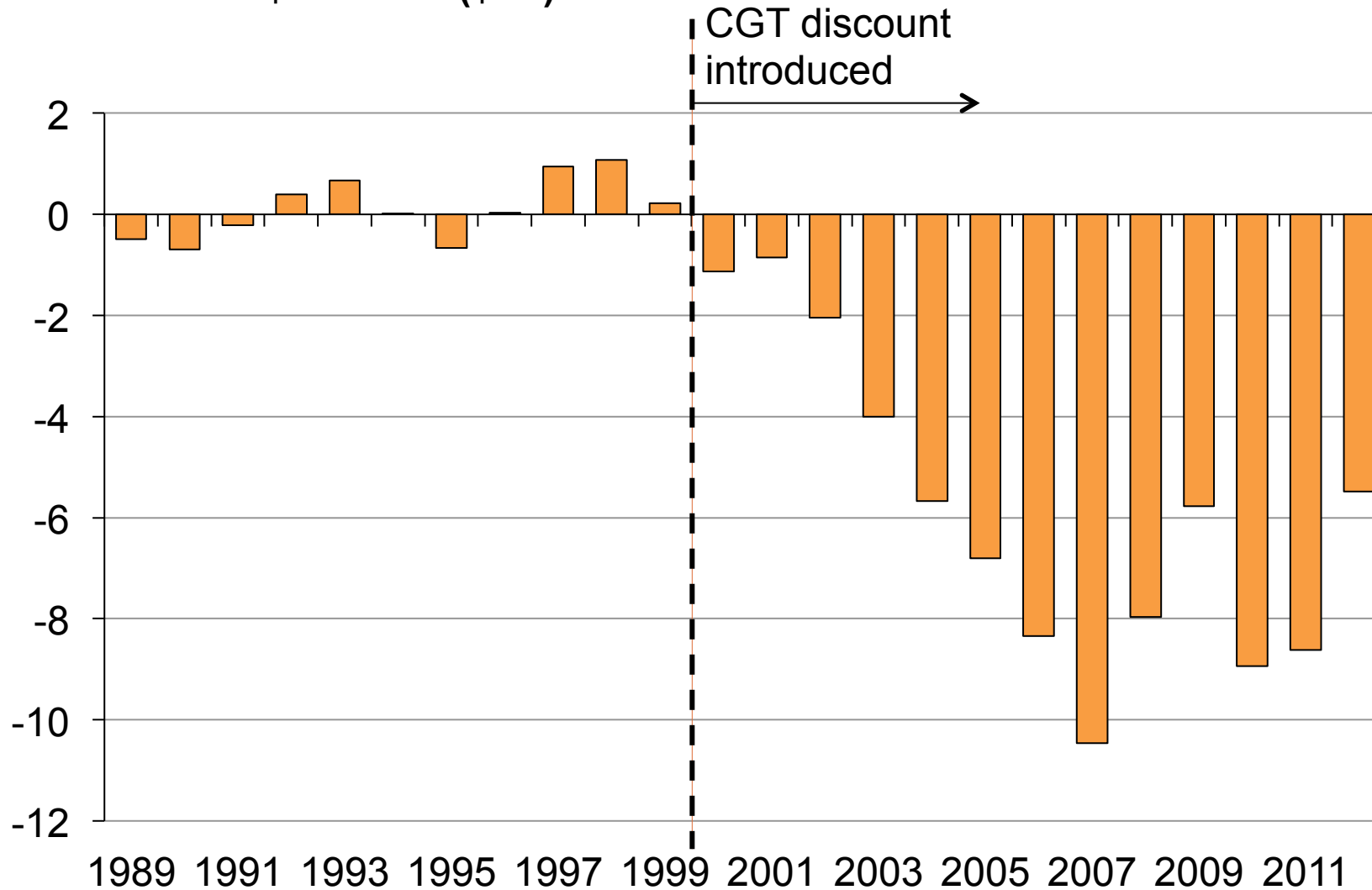
More landlords are negatively gearing and average losses are growing



Source: Grattan Institute analysis of ATO Taxation Statistics 2012-13.

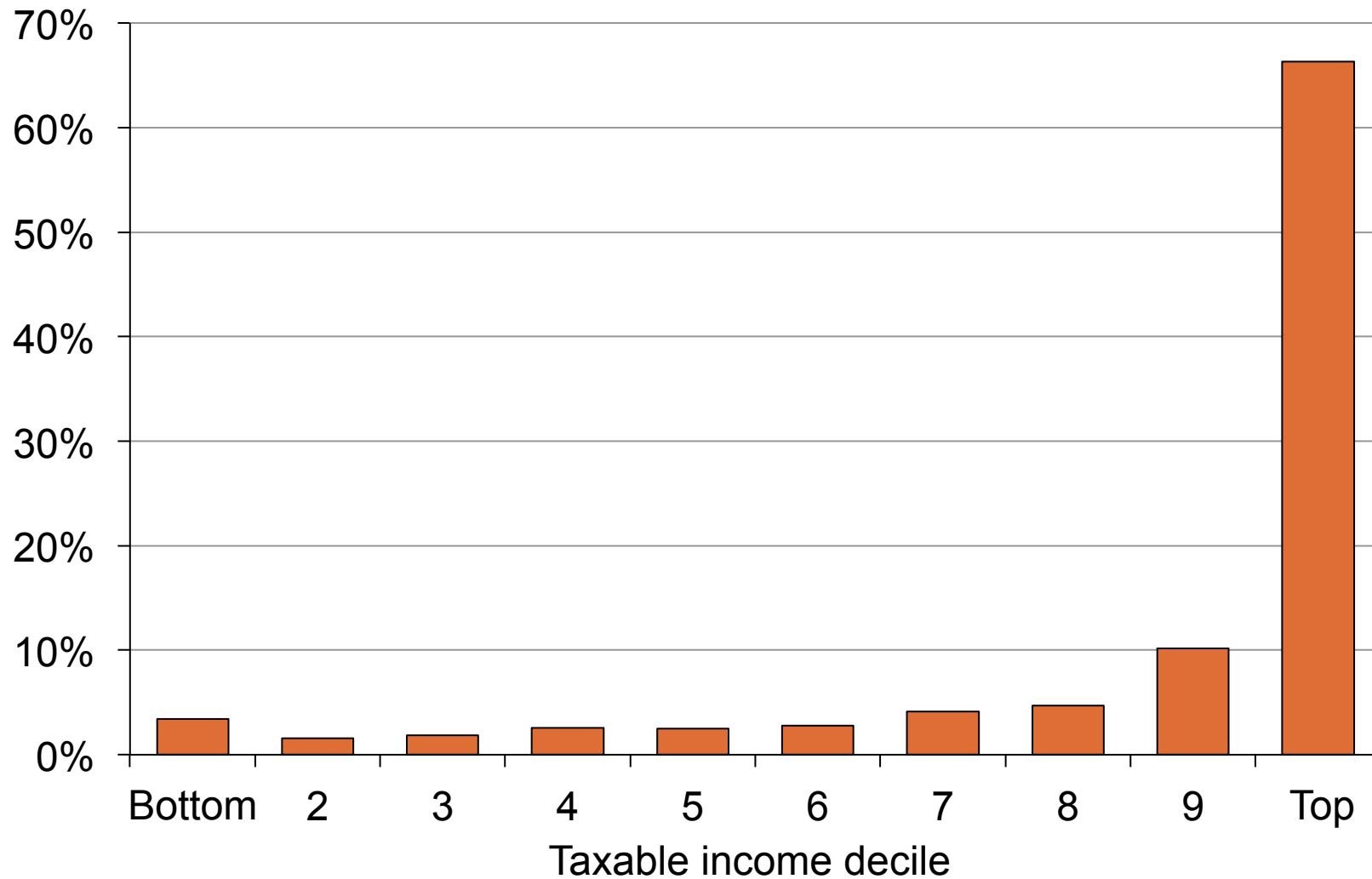
Collective losses on rental property jumped when the CGT discount was introduced

Total net rent \$ 2013-14 (\$bn)



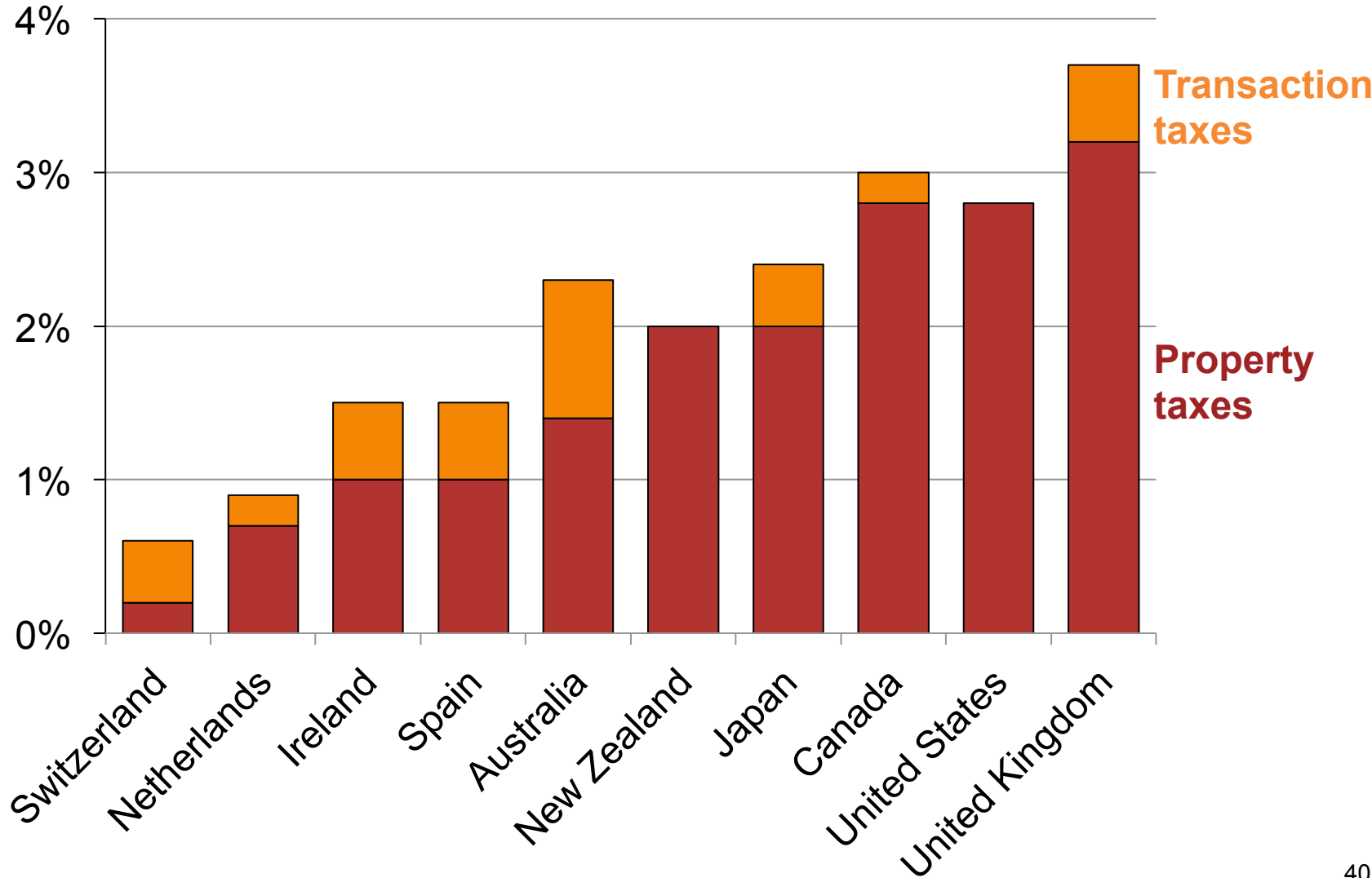
Most capital gains are made by the top 10 per cent of income earners

Percentage of net capital gains for each income decile (2012-13)



Australia has lower property tax revenues than some comparable countries

Taxes on property and transactions, per cent of GDP



Source: OECD (2014), *Revenue statistics*, updating Grattan Institute, *Property taxes*

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