National Foundation for Australian Women

REAL WOMEN. VISIONARY LEADERSHIP

GENDER LENS ON THE 2023-24 BUDGET

Key Policy in discussion	**FISCAL OUTLOOK**
Portfolio and or agency	**Department of Treasury**
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Key Portfolio Issues

The Australian economy is forecast to slow down from 2023-24 with employment growth slowing and the unemployment rate rising slightly. The positive side of this is expectation of slowing inflation and increasing wages growth, culminating in a return to positive growth for real wages in 2023-24 after three consecutive years of decline.

Declines in real wages to-date are estimated to have been larger for women, who are disproportionately impacted by inflation and more likely to work in industries with lower wages growth such as education and health care.

The 2023-24 Budget is forecasting a budget surplus in 2023-24, and while the outlook for net government debt remains substantial, it has been revised down significantly compared to the October 2022 Budget. Some of this revision comes from persistently high commodity prices, but there is also $74.1 billion in upward revisions of income tax receipts from 2022-23 to 2026-27.

While men on average tend to pay more income tax than women, the rate of growth in income tax paid by women has been faster in recent years than for men. Continued faster rates of growth in the amounts of income tax paid by women are expected to contribute to the government's forecast growth in income tax receipts, which will be funding spending on numerous government services.

Economic Outlook

Elevated inflation, sharply rising interest rates and tighter financial conditions are expected to constrain growth in advanced economies in 2023 (Budget Paper No 1, Statement 2, Economic Outlook). While the Australian economy has shown resilience to global headwinds, the same forces are taking a toll on domestic economic growth. As shown in Table 1, real GDP growth is forecast to slow down substantially from 3.25 per cent in 2022-23 to 1.5 per cent in 2023-24.

The tight labour market is expected to soften in response to slowing demand. Employment growth of 3.6 per cent in 2021-22 is forecast to slow down to 1 per cent in 2023-24 with the unemployment rate expected to rise to 4.5 per cent in the year after in 2024-25. While this would be the highest unemployment rate in Australia since 2021, it is still relatively low by historical standards.

The labour market tightness experienced since the start of 2022 has started to influence wages growth with the wage price index forecast to grow from 2.6 in 2021-22 to 4 per cent in 2023-24. Wages growth is then expected to soften in the following years as unemployment grows (albeit modestly).

Inflation (growth in the consumer price index) has passed its peak and is expected to fall significantly to 3.25 per cent in 2023-24 and back within the Reserve Bank of Australia's (RBA's) target range of 2 to 3 per cent in 2024-25. Inflation is expected to fall in response to the RBA's rapid interest rate rises which have seen the official cash rate grow from 0.1 per cent in April 2022 to 3.85 per cent in May 2023 at the time of the 2023-24 Budget's release.

While the forecast falls in inflation will be welcomed by many households facing large cost-of-living pressures, the Budget acknowledges the chance of more persistent inflation, noting that this would keep interest rates higher for longer and would heighten the risk of economic growth being lower than expected (Budget Paper No 1, Statement 2, Economic Outlook).

Table 1: Major economic parameters[(a)]

	Outcome	Forecasts				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Real GDP	3.7	3 1/4	1 1/2	2 1/4	2 3/4	2 3/4
Employment	3.6	2 1/2	1	1	1 3/4	1 3/4
Unemployment rate	3.8	3 1/2	4 1/4	4 1/2	4 1/2	4 1/4
Consumer price index	6.1	6	3 1/4	2 3/4	2 1/2	2 1/2
Wage price index	2.6	3 3/4	4	3 1/4	3 1/4	3 1/2
Nominal GDP	11.0	10 1/4	1 1/4	2 1/2	5 1/4	5 1/4

Source: 2023-24 Budget Paper No 1, Table 1.1: Major economic parameters
Notes: (a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.
Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.

The expectation of falling inflation combined with increased wages growth, would see real wages growth return to positive territory in 2023-24, after three years of consecutive declines. Real wages growth is measured as the difference between growth in the Consumer Price Index (i.e. inflation) and growth in the Wage Price Index. Using the data reported in the Budget, this calculation of real wage growth is presented in Table 2.

Declines in real wage growth are driving cost of living pressures, with declines indicating that prices of goods and services are growing faster than average wages. Table 2 shows that while positive growth in real wages is forecast to return in 2023-24, total growth from then through the remainder of the forward years is not forecast to be enough to outweigh even the negative growth from 2021-22 alone.

Table 2: Real wage growth

	Outcome	Forecasts				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Real wage growth (%)	-3.5	-2.25	0.75	0.5	0.75	1

Source: NFAW's calculations using data reported in Table 1, sourced from 2023-24 Budget Paper No 1, Table 1.1: Major economic parameters

Gender Differentials in Real Wage Growth

The Budget's estimate of real wage growth is an aggregate measure. The application of a gender lens reveals how real wage growth is likely to have differed for men and women. This disproportionate impact comes from both sides of the real wages growth equation.

On one side, the Consumer Price Index (CPI), inflation exerts a disproportionately larger effect on people on lower incomes, because the same increase in the cost of a consumption good or service constitutes a proportionately larger share of their budget than a person on a higher income. Given that women, on average, are on lower incomes than men, an increase in the CPI exerts a disproportionately larger erosive effect on women's purchasing power than men's.

On the other side, wages growth also tends to differ for men and women. While we cannot disaggregate the Wage Price Index precisely by gender, it is disaggregated by industry. Combining this with men and women's respective shares of employment in each industry, gives us a good idea of how wages growth has differed between the genders.

As shown in Table 3, the two most female-concentrated industries – Education and training and Health care and social assistance – experienced two of the lowest rates of annual pay growth of all industries in 2022. Meanwhile, the two industries experiencing the highest rates of pay growth were heavily male-concentrated, with less than one third of employees being women.

These gender-specific measures mean that the decline in real wage growth has, on the whole, been even larger for women than the 3.5 per cent (2021-22) and 2.25 per cent (2022-23) declines reported for the workforce in aggregate. Inflation is more erosive of women's purchasing power, owing to their lower average income levels, while nominal wage growth in the two most female-concentrated industries is even slower than the aggregate figure.

Table 3: Annual change in total hourly rates of pay by industry, and female share of industry employment

Industry	Annual growth in hourly pay (%)	Female share of industry employment (%)
Education and training	2.4	72.7
Public administration and safety	2.5	49.1
Health care and social assistance	3.0	76.0
Transport, postal and warehousing	3.3	23.8
Mining	3.3	19.5
Information media and telecommunications	3.4	40.5
Accommodation and food services	3.5	59.0
Administrative and support services	3.5	43.9
Professional, scientific and technical services	3.6	43.9
Electricity, gas, water and waste services	3.6	24.0
Rental, hiring and real estate services	3.7	47.9
Other services	3.7	43.0
Construction	3.8	13.3
Financial and insurance services	3.8	48.7
Retail trade	3.9	55.2
Arts and recreation services	3.9	47.1
Manufacturing	4.0	26.2
Wholesale trade	4.2	31.7

Sources: ABS, Wage Price Index, December 2022. Rates of pay exclude bonuses; ABS, Labour Force, Australia, Detailed, March 2023. Industries are listed in ascending order of annual growth in hourly pay.

Budget Aggregates

One of the biggest surprises from the 2023-24 Budget, was the forecast of a budget surplus in the current financial year, 2022-23. Table 4 shows that the underlying cash balance in 2021-22 was a deficit of $32.0 billion, but this is expected to grow to a surplus of $4.2 billion in 2022-23.

The expected surplus is being driven by a surge in government tax receipts which have been revised upward by $67.2 billion across 2022–23 and 2023–24 since the October 2022 Budget. Increased tax receipts have been driven by the strong labour market and persistently high commodity prices. The strong labour market means more people are engaged in employment and consequently paying income tax. The strengthening growth in wages also adds to incomes and therefore the value of income tax paid. However, the larger driver of increasing revenues has been record iron ore and coal prices, which have persisted for longer than the Treasury had anticipated in the previous budget.

The budget surplus is not expected to last very long, with Table 4 showing a return to deficit is anticipated in 2023-24 after just one year of surplus. This is driven by the forecasts for commodity prices that are expected to moderate closer to historical levels. As such, any further unexpected persistence in high commodity prices will lead to further upwards revisions in government tax receipts and a reduction in forecast deficits.

Net debt, at $515.6 billion or 22.3 per cent of GDP in 2021-22 is expected to grow over the forward estimates, reaching 24.1 per cent of GDP by 2026-27. This is an improvement on the estimates in the October 2022 Budget, but is still substantial. Debt levels are being driven by spending pressures including higher borrowing costs driven by interest rate rises.

Table 4: Budget aggregates

	Actual	Estimates						Projection
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total(a)	2033-34
	$b	$b	$b	$b	$b	$b	$b	
Underlying cash balance	**-32.0**	**4.2**	**-13.9**	**-35.1**	**-36.6**	**-28.5**	**-109.9**	
Per cent of GDP	-1.4	0.2	-0.5	-1.3	-1.3	-1.0		-0.2
Gross debt(b)	**895.3**	**887.0**	**923.0**	**958.0**	**1,015.0**	**1,067.0**		
Per cent of GDP	38.8	34.9	35.8	36.3	36.5	36.5		32.3
Net debt(c)	**515.6**	**548.6**	**574.9**	**620.6**	**665.2**	**702.9**		
Per cent of GDP	22.3	21.6	22.3	23.5	24.0	24.1		19.9

Source: 2023-24 Budget Paper No 1, Table 1.2: Budget aggregates

Notes: (a) Total is equal to the sum of amounts from 2022-23 to 2025-26. (b) Gross debt measures the face value of Australian Government Securities (AGS) on issue. (c) Net debt is the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

Gender Differentials in taxes

While forecast debt remains large, net debt forecasts in the 2023-24 Budget are significantly lower than in the October 2022 Budget. Along with commodity prices, this revision has also been driven by expected growth in personal income tax receipts. Personal income taxes have been revised up by $15.0 billion in 2023–24 and $74.1 billion over the 5 years from 2022–23 to 2026–27.

Overall total income taxation receipts are forecast to grow from $413.9 billion in 2021-22 to $515.4 billion in 2026-27. That is growth of 24.0 per cent. Some of that growth will be driven by greater employment (meaning more people paying income taxes), but average income tax receipts per employed person are still expected to grow by 15.0 per cent due to higher incomes and bracket creep (NFAW's calculations using data sourced from 2023-24 Budget Paper No 1, Table 1.1 and Table 5.7). This growth in tax revenue will support ongoing growth in spending on the provision of government services.

Table 5 shows how taxes paid by individuals (which contribute to government revenues) differ between men and women. On average, men pay more in net taxes than women given higher rates of employment, while women are more likely to be engaged in unpaid care responsibilities. However, over the five years from 2014-15 to 2019-20 (latest data available), the rate of growth in taxes paid by women has been much faster than growth in taxes paid by men – 18 per cent relative to 10 per cent growth.

Assuming this trend continues as women's labour force participation and wages continue to rise, this suggests that growth in taxes paid by women will be contributing more heavily to the substantial rate of growth forecast in overall income tax receipts, adding to government revenues.

Table 5: Net tax paid per person

Stated gender	Average net tax per person ($)		5-year	5-year
	2014-15	2019-20	growth ($)	growth (%)
Women	$9,276	$10,954	$1,678	18%
Men	$17,298	$19,019	$1,721	10%

Source: NFAW's calculations using data reported in Table 2 of individuals detailed tables sourced from Taxation statistics 2019-20, Australian Taxation Office.

Expansion of Economic and Fiscal Indicators

The economic and fiscal indicators presented in the Budget are based on the standard national accounting approach towards measuring the health of the economy as well as government revenues and spending. These measures conventionally center on aggregate measures and are not split out by gender or any other characteristics of people in the population and the economy.

The Women's Budget Statement supports the disaggregation of various indicators by gender. However, disaggregating the headline budget forecasts for economic indicators and budget aggregates to demonstrate the extent to which women and men respectively are contributing to and impacted by those figures would support a greater understanding of how the budget in aggregate impacts men and women differently.