

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

26 February 2014

Question: AET 2984

Topic: Forecast methodology models

Hansard Page: page 12, 26 February 2014

Senator BISHOP asked:

Senator MARK BISHOP: Did I hear you say that you think that lower level is going to be in the order of 20 per cent.

Dr Gruen: No. We can tell you how far below the current level it is. The point being that the terms of trade at the end of this decade end up around the level that we last observed in 2005-06.

Senator MARK BISHOP: Still high?

Dr Gruen: It is high but there are a range of reasons for thinking that we will not go all the way back down to the levels we were at in the 1990s. I am happy to tell you what they are if you are interested.

Senator MARK BISHOP: We may return to that. You have given us the two changes that were in—

Dr Gruen: They are the major ones.

Senator MARK BISHOP: Are there other changes at all that you can advise us of?

Dr Gruen: Not to the projection methodology, no.

Senator MARK BISHOP: When you say 'projection methodology', that includes forecast methodologies?

Dr Gruen: I do not think there have been changes to the forecast methodology that are—I mean, we have updated the forecasts, obviously.

Senator MARK BISHOP: Yes.

Mr Allford: Senator, we make changes to our forecasting models all the time, but typically they are very small, and from PEFO through MYEFO to now there have not been any major changes to the structure of our models.

Senator MARK BISHOP: So the only major changes have been the two that Dr Gruen is discussing. And, you say, other changes are really evolutionary and minor in nature?

Mr Allford: That is correct, yes.

Senator MARK BISHOP: In that case, can you take it on notice and provide us with the detail of those other minor changes, the justification for them and the consequences you think for forward projections.

Mr Allford: Yes, I can do that.

Answer:

Minor changes were made to the forecasting frameworks for business investment, the net income deficit, rural exports, service exports and the participation rate to improve model fit. These changes had no material impact on the economic parameters over the forward estimates.