

Intergenerational Report 2023

The sixth intergenerational report was released last week by Jim Chalmers and the Albanese Government. It offers a broad long-term view of the forces that will shape our country's economy and monetary position over the next 40 years (2062/2063). It is near impossible to accurately predict what happens in 5 years, let alone the next 40, but it does shed some light on what the government thinks we might look like in the years to come.

We've provided an overview on the report. You can read the full 296 report [here](#).

For the last 40 years, Australia's economy has flourished due to Iron ore, global trade, increased women's participation, and a shift to services. This has led to higher prosperity, resilient responses to crises (COVID-19), and a diverse economy. Looking ahead, the economy's path will be shaped by factors like aging population, technology, climate change, care services demand, and geopolitical risks.

Population Ageing

Australians are living longer and healthier lives, relying more on government services. The ageing population, driven by increased longevity and low birth rates, will double the number of those aged 65+ and triple those aged 85+. This poses continuous economic and fiscal challenges. Since the 1960's, life expectancy has increased by 13.7 years for males and 11.2 years for females (source: [here](#)).

Tech and digital transformation

Technology has fuelled incredible economic growth, better living standards, and improved work conditions. This trend is set to continue with ongoing digital transformation, promising higher incomes and enhanced quality of life in the next 40 years. Managing transitions and risks will be crucial during this transformative phase. Think Artificial Intelligence (AI).

Climate change and net zero transformation

Climate change and the shift to net zero emissions will impact Australia's economy and consumer-business decisions in the coming years. While this transformation poses challenges, it also brings growth prospects in various industries and jobs. Australia's substantial reserves of critical minerals like lithium and cobalt, vital for clean energy technologies, put the country in a position to benefit. Abundant renewable resources further enable cost-effective green energy generation.

Rising demand for care and support services

As our population ages, the need for quality care services is increasing. Governments are extending formal care options for children, the elderly, and those with disabilities, resulting in improved care standards. To meet the growing demand, it's essential to enhance skills, training, and wages for care workers, ensuring a capable and sustained workforce for the sector's expansion. It will almost certainly lead to higher costs of these services.

Geopolitical risk and fragmentation

Australia's economic success relies on open global markets and trusted trade systems. While this has brought growth, challenges like trade disputes and crises have arisen. Future prosperity requires safeguarding security, ensuring market access, and building strong regional partnerships to enhance economic resilience in a shifting geopolitical environment.

Australia's changing industrial base

Australia's industrial shift toward services, like in advanced economies, is evident in the past 40 years. Climate change responses are a major long-term driver of transformation. Ageing population and digital tech uptake will further emphasize service delivery and skilled workforce demand. Care, manufacturing, and mining sectors will undergo significant changes. The growing care sector will generate jobs. Mining will align with low-emission commodity demand. Manufacturing will likely specialize and advance, leveraging net zero opportunities.

Economic projections over the next 40 years

The Australian economy, like other advanced economies, is expected to grow slower in the next 40 years. Mainly due to slower population growth, ageing demographics, and cautious productivity growth estimates. This slower growth adds budget pressure. However, the economy is still predicted to be around 2.5 times larger by 2062-63.

Productivity

Productivity growth has slowed since the mid-2000s. The report assumes 1.2% productivity growth, aligned with the 20-year average. This technical assumption doesn't consider future policy shifts, global changes like digitalisation, climate transformation, or industry shifts.

Population

Australians will live longer, healthier lives, and have fewer children, resulting in an older and slower-growing population. The annual population growth rate is expected to drop to 1.1% over the next 40 years. The population is estimated to reach 40.5 million by 2062-63.

Participation

More people are working, with the labour force participation at record highs. Women entering the workforce have primarily driven the past 40 years' increase in participation. However, employed individuals now work fewer hours due to more part-time positions, especially for women and older citizens. As the population ages, the participation rate is predicted to slowly decline from 66.6% in 2022-23 to 63.8% by 2062-63. The average weekly work hours per employed person will slightly decrease from 32 to around 31 as part-time work becomes more prevalent.

Income and the terms of trade

Real Gross National Income (GNI) per person, the average earnings per Australian, will likely rise by around 50% in the next 40 years. However, the annual growth rate for GNI per person is expected to slow. This is due to reduced impacts from international price changes and projected shifts in population, participation, and productivity. GNI per person has been boosted by rising commodity prices, driving the terms of trade to record levels in recent decades. Nevertheless, these prices are projected to decrease and stabilize, no longer contributing to GNI growth.

The budget over the next 40 years

Government payments

Fiscal sustainability is crucial for public services, economic resilience, and stability. Despite recent improvements in near-term fiscal conditions, Australian Government debt-to-GDP remains high historically. Long-term spending pressures grow as the population ages, and revenue narrows. While a surplus is expected in 2022-23, for the first time since 2007-08, deficits will persist long-term, initially narrowing and later widening due to spending pressures. Recent actions and a faster-than-expected post-COVID-19 recovery have improved the fiscal outlook.

Receipts

Total receipts will rise to 26.3% of GDP by 2033-34 per the 2023-24 Budget, then decline to 26.0% by 2062-63. Post-COVID-19 recovery, with low unemployment, wage growth, and strong commodities, will boost tax receipts to 24.4% of GDP by 2033-34. Economic shifts will pressure revenue over the coming decades. Indirect sources, like fuel and tobacco excise will erode due to transport decarbonization and changing preferences. Company tax, GST, and other taxes will broadly follow economic growth. Personal income taxes will increase with income, wages, and population, limited by the technical tax-to-GDP assumption.

Planning and investing for Australia's future

Australia's future success hinges on current decisions. The government is focused on enhancing and improving the following areas.

- Repairing the budget.
- Fostering a dynamic, resilient, and growing economy.
- Growing the workforce and building skills.
- Transforming the economy to net zero emissions.
- Sustainably meeting Australians' care and support needs.
- Expanding opportunity and addressing disadvantage.
- Positioning our defence capability for regional security.

Alex, Anu and the team.

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