



Intergenerational Report 2023 at a glance

Five major forces that will shape the Australian economy over the coming decades are population ageing, expanded use of digital and data technology, climate change and the net zero transformation, rising demand for care and support services, and increased geopolitical risk and fragmentation.

Australia's future prosperity will be influenced by how well we manage and maximise these shifts underway in the economy. The Government is acting to repair the budget, build the skills and capabilities of our workforce, foster a more dynamic and productive economy, broaden opportunity, and strengthen national and regional security. The Government is also investing in care and support services and positioning Australia to make the most of the opportunities from the net zero and digital transformations.

The economy in 40 years

The economy is projected to be around two and a half times larger and real incomes around 50 per cent higher by 2062–63.

But, like other advanced economies, our economy is projected to grow at a slower rate over the next 40 years than in the past, at an average of 2.2 per cent a year.

Population

Australians are expected to live longer and spend more years in full health.

Australia's population is projected to grow more slowly over the next 40 years – at an average of 1.1 per cent a year, compared to 1.4 per cent over the past 40 years.

The population is projected to reach 40.5 million in 2062–63, similar to projections in the 2021 IGR.

Migration will continue to contribute to population growth but is projected to fall as a share of the population.

Australia's population will continue to age over the next 40 years. The number of Australians aged 65 and over will more than double and the number aged 85 and over will more than triple. The number of centenarians is expected to increase six-fold.

Nevertheless, Australia's population is expected to remain younger than most advanced economies.

Participation

More people are participating in paid work than ever before and the labour force participation rate is near record highs.

But as the population continues to age over the next 40 years, the overall participation rate is projected to decline gradually from 66.6 per cent to 63.8 per cent in 2062–63. Average hours worked is also expected to decline slightly.

The gender gap in participation is expected to continue to narrow. Further broadening labour market opportunities can increase overall participation and contribute to a more inclusive workforce.

Productivity

Productivity growth is assumed to grow at 1.2 per cent a year, around the average of the past 20 years. The future path of productivity is not a foregone conclusion and will be influenced by decisions taken by governments, businesses, and investors, and the big shifts underway in the global and domestic economy.

Our changing industrial base

The ageing population, adoption of new technologies, net zero transformation, growing demand for care and support services, and geopolitical uncertainty are changing the composition of our economy.

The ageing population will reinforce the trend towards a services-based economy, with the care and support sector and its workforce potentially doubling over the next 40 years.

Digitalisation will change how we work, raising productivity, improving workplace safety and providing us with the agility we need to face the challenges of the future.

The net zero transformation will see global demand for some exports decline, while creating new markets and opportunities for our industries. Critical minerals could become key exports for Australia as the world transitions to net zero. Australia is already the world's largest producer of lithium, supplying more than half of all global production. Global demand for lithium could be more than eight times higher in 40 years time.

Climate change will have profound impacts on the economy and society. It will affect where and how Australians choose to live and work, food and energy security and our environment. The Government is taking strong action to respond to these challenges and position Australia to maximise opportunities from the global net zero transformation.

The budget in 40 years

Recent actions by the Government have improved the fiscal outlook and mean we are better placed to sustain essential services and meet future challenges. But there are growing pressures on the budget.

Long-term spending pressures

The five main spending pressures of health, aged care, the National Disability Insurance Scheme, defence, and debt interest payments are projected to rise from around one-third to around one-half of all government spending.

Total government spending is projected to rise by 3.8 percentage points of GDP over the next 40 years. Demographic ageing causes around 40 per cent of this increase.

Consistent with past IGRs, total income support and education payments are projected to continue to grow in real terms per person but decline as a share of GDP as the population ages.

Spending on age and service pensions is projected to fall as a share of GDP despite the ageing population, with superannuation increasingly funding people's retirement.

Changing revenue base

Consistent with past IGRs, tax as a share of the economy is assumed to be constant over the long run. But structural changes to the economy will put pressure on the revenue base over the coming decades.

Decarbonisation of the transport industry and changing consumer preferences are expected to erode revenue from fuel and tobacco excise. Global demand for emissions-intensive commodities, and reliance on them as a source of revenue, is also likely to decline.

The budget balance

The Government is gradually rebuilding fiscal buffers. The budget is in surplus for the first time in 15 years in 2022–23, and gross debt as a share of GDP is projected to decline over the coming decades.

However, growing spending pressures are projected to result in deficits remaining in future years. After declining to 22.5 per cent of GDP in 2048–49, gross debt is projected to reach 32.1 per cent of GDP by 2062–63. This is lower than projected in the 2021 IGR.

The Government has taken steps to improve the fiscal position and rebuild fiscal buffers, through banking most tax revenue upgrades, finding savings and reprioritising spending, and making measured improvements to the tax system. These actions have supported a stronger fiscal outlook compared to the 2021 IGR.