

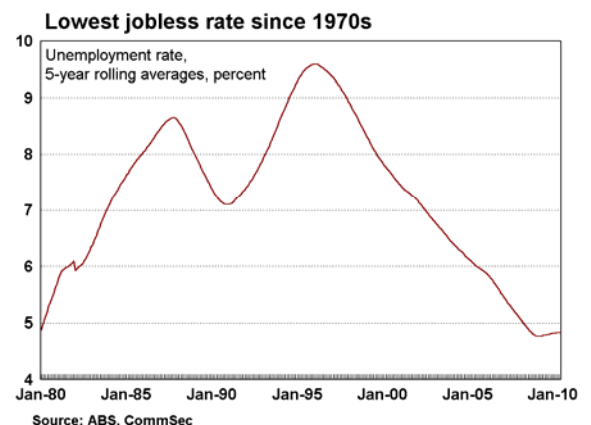
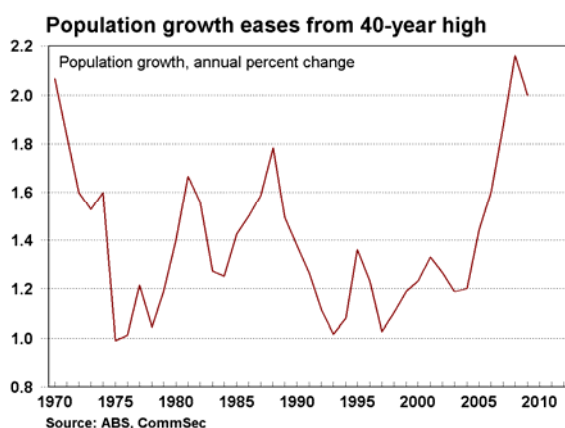
Population growth: measure of economic success

Economic issues

- Population growth has become a key issue in this election period. We examine the latest trends.
- Australia's population grew by 1.99 per cent over the 2009 year, slightly below the 40-year high of 2.16 per cent set in the year to March 2009.
- The gradual increase in the pace of population growth since 2004 has been instrumental in providing valuable economic momentum, especially over the period of the global financial crisis.
- It is essential that fast population growth is maintained to meet the demands of an ageing population, but government planning must be responsive to ensure infrastructure needs are met.

What does it all mean?

- The old adage is that truth is the first casualty of election campaigns. And that observation appears to ring true when it comes to discussion of population growth. Some believe that solid population growth should be maintained, others believe that it should be reduced. But most believe that whether population growth is fast or slow, it should be sustainable. However actually determining what this means in practice is harder to define.
- What is clear is that Australia's population growth rate has almost doubled over the past six years, lifting from around 1.1 per cent to around 2 per cent. And over that period the record economic expansion has continued while the unemployment has trended lower. In fact the unemployment rate has averaged 5 per cent over the past five years – the lowest average rate since the 1970s.
- Rising population growth hasn't resulted in higher unemployment, rather it's been instrumental in driving economic growth and contributing to firmer job markets.
- Firm **population** growth represents one of the 'Ps' in Federal Treasury's PPP policy to address the challenges posed by an ageing population. The other Ps includes measures to increase labour force **participation**; and measures to boost **productivity** growth. Federal Treasury has largely been successful on all three grounds in recent years, ensuring that firm non-inflationary economic growth has been maintained.



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- The measures to boost population growth have focussed on both the natural increase (births less deaths) as well as migration. Federal Governments have offered incentives like the baby bonus to boost natural increase while also lifting the migrant intake to ensure that labour supply has adjusted to meet higher demand.
- The share of young people in the working age population is close to the lowest levels on record. But at the same time the resources boom has increased the demand for skilled labour. The lift in skilled migration levels has been successful in achieving a targeted increase in labour supply, restraining wage pressures and, in turn, keeping inflation low.
- The question is not whether population growth needs to be reduced. It shouldn't. Rather all layers of government need to ask what needs to be done to ensure population planning and infrastructure creation is up to the task.

Regional Population Growth 2008/09, Annual % change

Top 5 regions

Mandurah (WA)	5.34
Hervey Bay (QLD)	4.52
Bunbury (WA)	4.33
Cairns (QLD)	3.26
Gladstone (QLD)	3.22

Bottom 5 regions

Wollongong (NSW)	1.25
Burnie-Devonport (TAS)	1.10
Port Macquarie (NSW)	1.10
Lismore (NSW)	0.70
Launceston (TAS)	0.68

Source: ABS, CommSec

What is sustainable population growth?

- If migration levels aren't increased to meet the demands for skilled labour, effectively activity will be choked off and the economy will be forced to grow at a slower rate. But if the workforce isn't expanded to offset the outflow of retired workers then government tax revenue will fall and the community will be forced to come up with other ways to fund the health and social security demands of the population.
- Federal Treasury sees migrant-driven population growth as one of the solutions to the medium-term deterioration in government accounts. Importing people in their 20s and 30s will go some way in slowing the ageing of the population while at the same time boosting the bank of skills, and increasing government tax revenues.
- Sustainable population growth is a rate that is consistent with non-inflationary growth, and doesn't impose special hardships or demands on government to increase housing supply and infrastructure.
- While the faster pace of population growth in recent years has been extraordinarily successful from a macroeconomic standpoint, the problem is that lack of planning by all forms of government has meant there have been stresses at a microeconomic level. This has been manifest in the slow/inadequate response in boosting housing supply, pressures on energy and natural resources and increased congestion.
- There is no reason why population growth can't be maintained at levels around 2 per cent per annum providing there is good planning applied by government. Clearly businesses must also be more attuned to the issues of fast population growth when the annual rate is hovering near 2 per cent rather than 1 per cent.

Population Growth Local Government Areas 2008/09, Annual % change

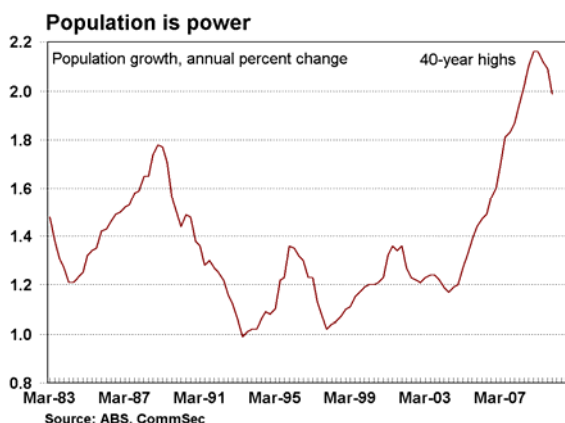
Biggest gainers

Perth (WA)	12.80
Tammin (WA)	8.75
Wyndham (VIC)	8.08
Melton (VIC)	7.88
Serpentine-Jarrahdale (WA)	7.64

Biggest Losers

Murrindindi (VIC)	-7.14
Nungarin (WA)	-6.59
Barcoo (QLD)	-4.59
Wyalkatchem (WA)	-4.48
Ravensthorpe (WA)	-4.23

Source: ABS, CommSec



- The appropriate sustainable rate of population will vary from region to region. Recently western Sydney has been raised in the debate on sustainable population growth but numerous regions in other states are recording far stronger rates of population growth. The issue is one of planning to account for the significant transport, housing, social infrastructure and even geographic differences in each region.

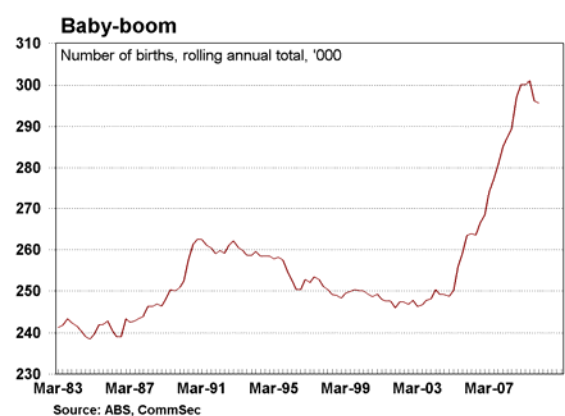
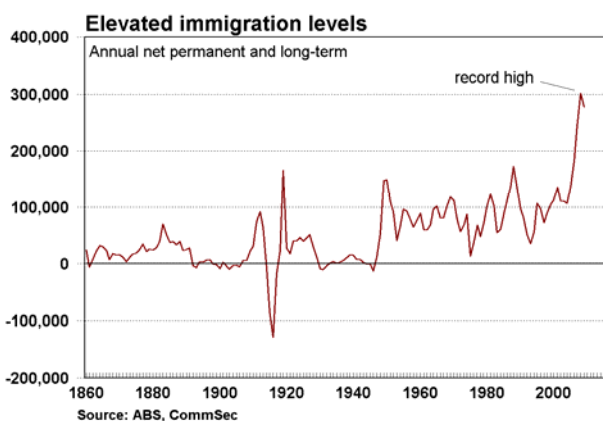
Dangers about the changing pace of people flows

- Population is power. Recent data showed that the tourism gap (arrivals less departures) hit a fresh record (34-year) low in May. At the same time there are less migrants coming to Australia. Net permanent and long-term arrivals to Australia fell to 250,650 people in the year to May, down 26.6 per cent or 89,870 people on the record high in the year to July 2009. In fact migration to Australia is falling at the fastest rate in 16 years.
- If there are fewer tourists coming to our shores and fewer longer-term migrants then there is reduced spending power. The decision by the Federal Government to reduce migrant numbers is sapping momentum from the economy at a time when the outlook for the global economy has become murkier. It is the speed of the drop in migrant numbers that is the worry – the biggest decline in more than 16 years.
- The Government-driven reduction in the number of migrants coming to our shores is robbing vital spending power from the economy. Over the past year just over a quarter of a million people decided to call Australia home, down almost 90,000 people from a year ago. While fewer migrants will reduce the demand on housing, it also causes a shift in momentum for the economy. Compared with a year ago there are 90,000 fewer people spending money in the economy, and together with the soggiess of tourism numbers, this would be partly accounting for the soft conditions faced by retailers.
- Not only do governments and businesses need to consider issues associated with sustainability of population growth. But they also need to be mindful that when there are changes in people flows then it has significant short and longer-run consequences.



What do the latest figures show?

- The December quarter demographic statistics were released just under a month ago and are detailed below.
- Australia’s population expanded by 432,609 people over the calendar year 2009 to 22,155,429 people. Overall, Australia’s population grew by 2.0 per cent over 2009, easing away from the 40 year record pace of 2.16 per cent recorded in the year to March 2009.
- A total of 277,700 people migrated to Australia over 2009 – falling further away from the biggest annual total since European settlement which was recorded in the year to March 2009 (305,872). An additional 760 people called Australia home each day over the past year.
- Over the 2009 calendar year, 83,787 migrants settled in NSW, followed by Victoria (77,502), Queensland (53,265), Western Australia (38,078), South Australia (17,349), ACT (3,775), Tasmania (2,046), and Northern Territory (1,909).



- There were 295,700 babies born in 2009, down slightly from the record 301,000 births in the year to June 2009.
- Population growth eased in all states and territories except for South Australia. Over the past year population growth was fastest in Western Australia (2.65 per cent), followed by Queensland (2.44 per cent), Northern Territory (2.21 per cent), Victoria (2.13 per cent), ACT (1.83 per cent), NSW (1.64 per cent), South Australia (1.32 per cent), and Tasmania (0.89 per cent).
- Victoria's population eased modestly from 58 year highs while South Australia's population growth is the fastest since 1974.

Regional Population Statistics:

- The detailed regional population figures for 2008/09 were released in late March.
- Across the local government regions Perth (up 12.8 per cent) recorded the fastest population growth rate in 2008/09, followed by Tammin, WA (up 8.75 per cent), Wyndham, Victoria (up 8.08 per cent), and Melton, Victoria (up 7.88 per cent).
- Ipswich (up 4.99 per cent) was the top performer in Queensland, while Canada Bay (up 4.71 per cent) was the hot suburb in NSW followed by Auburn (up 3.66 per cent) and Strathfield (up 3.43 per cent).
- Across the capital cities population growth remained healthy with Perth (up 12.8 per cent), followed by Melbourne (up 4.0 per cent), Darwin (up 2.60 per cent), Sydney (up 2.58 per cent), Adelaide (up 2.35 per cent), Brisbane (up 2.05 per cent), Canberra (up 1.78 per cent) and Hobart (up 0.48 per cent).

What are the implications for interest rates and investors?

- It would be easy for a federal government merely to cut migrant numbers and thus population growth as it would mean less needed to be spent on infrastructure and less time would be allocated to future planning. But with Australia's population ageing and China placing increased demands on our country's natural resources, all it would mean is that the problem is swept under the carpet. Indeed there is the potential for different and potentially greater issues with slower growth of labour supply and upward pressure on wages and prices.
- The PPP policy has been successful and should be maintained, but there needs to be greater planning applied by governments to ensure that housing and infrastructure adjusts to the challenges of a bigger population.
- There is some sense that Australia is different to the rest of the world. Australia has one of the lowest population densities in the advanced world but still some fear that our water and power needs won't be able to adjust to a bigger population. Rather more resources need to be devoted to planning with more visionary policies considered than has been traditionally the case in the past.
- The reduction in tourism and migrant numbers is currently working to slow momentum in the economy. Whatever is decided on population growth, all sides of politics must be aware that the flow of people has real consequences. If businesses can't get the staff they need, the risk is that wage and price pressures will increase. Infrastructure and housing planning are determined by assuming a rate of population growth. If that assumption changes then utilisation levels also change.

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