

Box D

Implications of Lower Population Growth for the Australian Economy

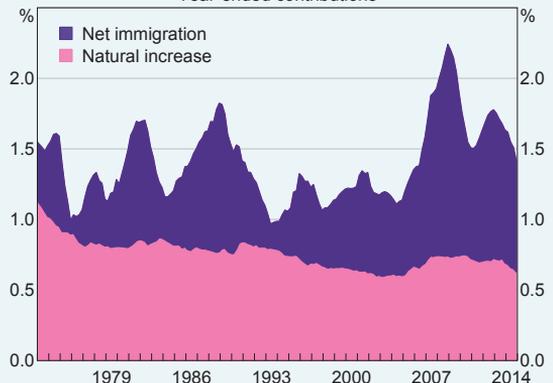
Australia experienced rapid population growth over much of the past decade, both by the standards of recent decades and in comparison with other advanced economies. Recently, however, population growth has declined to be well below the rates experienced over most of the preceding five years. The estimated resident population grew by 1.4 per cent over 2014, down from the recent peak in growth of 1.8 per cent over 2012 and average annual growth of 1.7 per cent since 2006 (Graph D1).¹ The recent pace of population growth is still high by international standards.

Most of the variation in Australia's population growth over recent decades has reflected changes in net immigration, and this is also true of late. Recent immigration outcomes have been lower than was earlier projected by the Department of Immigration and Border Protection (DIBP). As a result, population growth over 2014 was around $\frac{1}{4}$ percentage point less than had been assumed in the Bank's economic forecasts a year ago.

Lower population growth has important implications for the economy. It lowers the growth in demand for goods and services, as well as the economy's capacity to supply those goods and services. On the demand side, lower population growth would, all else being equal, be associated with less growth in consumption. Over time, it may also reduce the need to expand the capital stock through investment in residential housing, non-residential buildings, machinery & equipment and so forth. At the same time, lower population growth implies that

¹ Measured population growth over 2014 was around its long-run average. However, comparisons over time are complicated by changes in definitions. See Australian Bureau of Statistics (2007), 'Statistical Implications of Improved Methods of Estimating Net Overseas Migration', *ABS Information Paper*, 25 May.

Graph D1
Population Growth*
Year-ended contributions



* Total population growth is the sum of the components
Sources: ABS; RBA

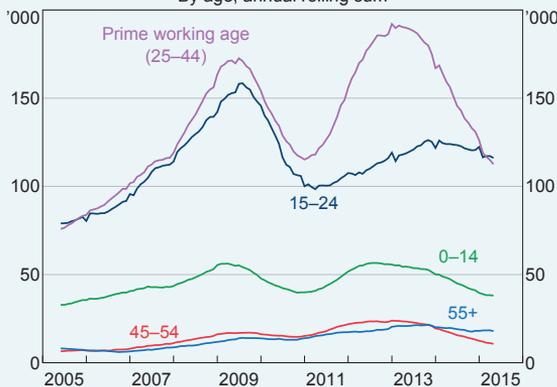
there are fewer individuals available to be employed in producing goods and providing services.

While growth in aggregate economic activity would be expected to be lower, the implications for variables such as per capita spending and the unemployment rate depend on the relative strength of the demand and supply effects. For example, over the past year or so, lower population growth may help to explain why the unemployment rate has stabilised despite below-average growth in GDP. That is, the observed growth in demand occurred alongside less growth in labour supply than was previously thought to be the case. This also implies less spare capacity in the labour market than otherwise.

The composition of immigration can have implications for its net effect on supply and demand. Data for long-term and permanent arrivals since 2006 suggest that individuals of prime working age have recently made the biggest contribution to

changes in net immigration (Graph D2).² However, there was also a large cycle in long-term and permanent arrivals for those aged 15–24 years between 2008 and 2010, in part associated with changes in migration policy related to international students. International students may add less to labour supply than other visa categories as they can only work part-time during study terms.

Graph D2
Net Long-term and Permanent Arrivals
By age, annual rolling sum

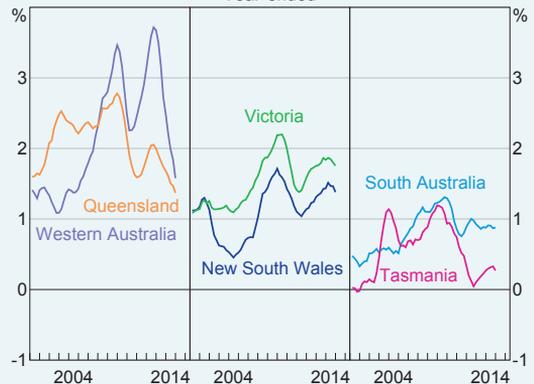


Sources: Department of Immigration and Border Protection; RBA

Strong net immigration between 2006 and 2012 took place alongside rising commodity prices and strong mining investment. From 2010 to 2012, immigration was most pronounced in states where demand for labour from the resource boom was most concentrated. In particular, immigration contributed substantially to strong population growth in Western Australia and Queensland; net inflows of people from interstate also increased (Graph D3). These flows were recognised as an important means of addressing skill shortages. More recently, the decline in immigration has been most marked in Western Australia and Queensland as they face the direct effects of the downturn in mining investment and commodity prices (and interstate flows have also

2 Note that these data are not directly comparable to the net overseas migration data. In particular, long-term and permanent arrivals measure movements in and out of the country, while immigration measures addition to the resident population.

Graph D3
Population Growth by State
Year-ended



Source: ABS

adjusted). This has assisted adjustment in the labour supply to changing demand conditions across the country.

There has been a large decline in net immigration from New Zealand over the past few years. New Zealand citizens are able to move freely to Australia for employment, so may be more sensitive to relative labour market conditions than other migrants. Over the past three years, labour market conditions in New Zealand have tightened at the same time that spare capacity in the Australian labour market has increased. This is likely to have been particularly pronounced in the construction industry, owing to the fall in mining investment in Australia and reconstruction activity in Christchurch. However, a decline in immigrants from New Zealand was at least partly expected, so this may not have driven the difference between recent outcomes and earlier forecasts.³

3 Based on data from Statistics New Zealand. In addition, data from the Department of Education and Training suggest that the surprisingly low outcomes compared with the earlier population growth assumptions may have been driven by international student numbers increasing by less than was previously expected. More detail on net immigration by visa category will be released by the DIBP in due course.

There is considerable uncertainty about the ongoing level of immigration. The Bank's forecasts assume that population growth will remain around its recent lower level for some time. The implications of this assumption for demand, supply and hence inflationary pressures in the economy are discussed in the 'Outlook' chapter. ✎