

Box C

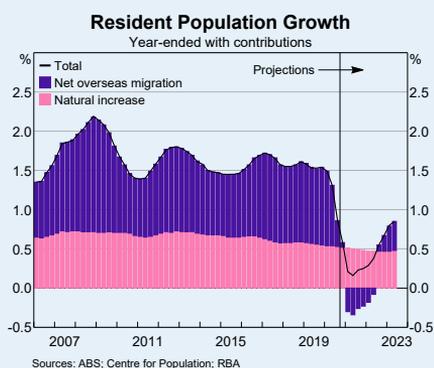
International Border Closures, Slower Population Growth and the Australian Economy

The pandemic has resulted in an abrupt slowing in Australian population growth (Graph C.1). Since the mid 2000s, the Australian population has grown around 1½ per cent per annum, supported by the ongoing natural increase in the population and strong net overseas migration. However, the closure of international borders in early 2020 resulted in a rapid decline in inward migration; the effect this had on slowing population growth was only partly offset by more Australians returning home and fewer leaving the country than was typical previously. As a result, population growth is expected to be around 0.2 per cent in 2021, its slowest rate in more than a century.

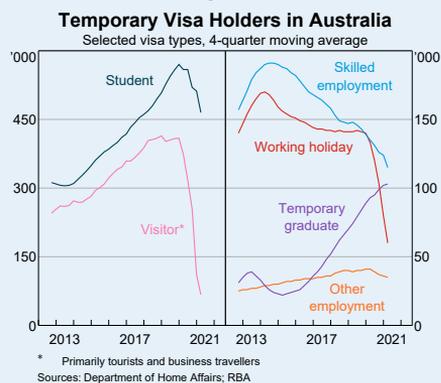
The closure of international borders not only constrained inward migration but also largely halted short-stay international visitor arrivals, who are mainly tourists and business travellers staying less than 12 months

(Graph C.2).^[1] Together, the decline in migrants and short-term international visitors has had some material economic effects, mainly concentrated on those areas of the economy most reliant on international tourism, temporary foreign workers or international student populations. These effects have been uneven, but overall they have meant less demand in some areas of the economy. The decline in visitors and migrants has also had some implications for housing and labour markets. The extent and duration of these effects, which are discussed below, will depend on how quickly international travel and migration return to pre-pandemic patterns.

Graph C.1



Graph C.2



Strong population growth has supported economic growth over recent decades

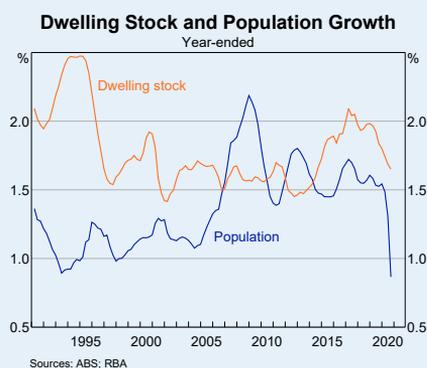
Prior to the pandemic, population growth was noticeably faster in Australia than most other advanced economies. This is a key reason why the rate of economic growth in Australia had exceeded that in many advanced economies at that time.^[2] Faster population growth was also reflected in employment growth in Australia being stronger than seen in many other advanced economies. In part, immigration had been used in Australia as a way of addressing skills shortages in the labour market, for example, as seen during the mining investment boom. Another significant part of inward migration over the past decade had been the increase in the number of international students, who have contributed to domestic demand and added to the domestic labour supply.

Population growth took a step up in the mid 2000s and this affected the economy in a number of ways. More people meant increasing demands on domestic infrastructure and, over time, private and public infrastructure spending picked up in response. It contributed to increased demand for housing. Initially, this boosted rents and, over time, also housing construction, especially for high-density dwellings (Graph C.3). Strong immigration also influenced Australian demographics. Migrants are typically younger relative to the overall population, which has resulted in Australia becoming one of the youngest countries among advanced economies. This shift in Australia's demographics has had various positive economic effects – including higher labour market participation and slower ageing of the population – that will play out over a long period of time.

The drop in international arrivals has affected domestic demand and rental demand ...

The decline in international arrivals since the pandemic had some immediate economic effects. The decline in inward migration has been the driving factor behind Australian population growth slowing since the pandemic. Population growth has not fallen to anywhere near the same degree in most other advanced economies; Canada, which also had high levels of net overseas migration in recent years, is the main exception. The decline in international students, tourists and foreign workers more broadly has removed a source of demand for a range of goods and services, such as accommodation, education, food and transport.^[3] The economic effects have been felt unevenly, with some firms and regions more reliant on these temporary visitors than others. The decline in education exports alone subtracted around ½ per cent from the level of GDP over the first half of 2020, which includes both less spent on living expenses and tuition fees. The overall effects on GDP of fewer international tourists will have been offset to some extent by some of the money Australians would have spent on overseas holidays and business travel now

Graph C.3



being spent domestically; this will have included some increase in domestic travel but also some substitution to other types of consumer and business spending.

With fewer international arrivals, the demand for certain types of housing and accommodation has declined. In particular, the decline in international students and other temporary residents, as well as a sharp decline in tourists and business travellers, has reduced demand for long- and short-term rental accommodation. In the first half of 2020, these factors weighed on rental markets, along with others including lockdown measures, work from home arrangements which meant people could now live further from their place of employment, and the initial increase in unemployment. As a result, rental preferences shifted and overall demand declined, especially for inner-city apartments. At this time, rental vacancy rates rose, particularly in inner-city Sydney and Melbourne, and rents declined.

Since this time, the economy has been undergoing a period of change, which has included not only the significant decline in international visitors but also important changes to the way Australians live and work. The economic effects of fewer international visitors on particular industries and regions is evolving, with some firms better able to adapt than others (for instance with an increased focus on domestic tourism). Rental markets have also been adjusting to both these forces.^[4] Australia's rental market conditions have become highly variable; vacancy rates are very low and rents are increasing strongly in some parts of the country, while rental market conditions remain relatively weak in inner-city Melbourne and Sydney.

... and has affected labour supply

The effects on labour supply have been observed mainly in some labour supply shortages in the industries that typically employ a larger share of migrants. But the overall effect on the Australian labour market has been modest, since temporary foreign workers comprise a small share of the workforce overall. Historically, international students have tended to work primarily in the accommodation & food and administration & support industries, while working holidaymakers have tended to work in the agriculture industry (generally on a short-term basis as a requirement for visa renewal) and in accommodation & food (Graph C.4). Information from the Bank's business liaison program suggests that regional labour shortages have recently been exacerbated in some of these industries.

Given the current domestic availability of labour, strengthening labour demand as the economy transitions from recovery to expansion is likely able to be met from within the domestic population in the near term. However, a sustained period of economic recovery could lead to wages pressures

Graph C.4

Visa Holder Share of Employment
By occupation and visa type, 2016



* Includes other Temporary visas and Bridging visas
Sources: ABS, RBA

emerging more quickly if new labour supply remains constrained, particularly and foremost in areas of domestic skills shortages

and where substantial time is involved in upskilling domestic workers. ❖

Endnotes

- [1] An international visitor is not included in the resident population unless they stay in Australia for at least 12 months over a 16-month period.
- [2] See P Lowe (2018), 'Demographic Change and Recent Monetary Policy', Address to Anika Foundation Luncheon, 8 August, viewed 6 May 2021. Available at <<https://www.rba.gov.au/speeches/2018/sp-gov-2018-08-08.html>>.
- [3] For further information on the effects of the pandemic on Australian education and tourist exports, see Grozinger P and S Parsons (2020), 'The COVID-19 Outbreak and Australia's Education and Tourism Exports', *RBA Bulletin*, December, viewed 6 May 2021. Available at <<https://www.rba.gov.au/publications/bulletin/2020/dec/the-covid-19-outbreak-and-australias-education-and-tourism-exports.html>>.
- [4] For further information on the effects of the pandemic on Australian rental markets, see Evans R, Rosewall T and Wong A (2020), 'The Rental Market and COVID-19', *RBA Bulletin*, September, viewed 6 May 2021. Available at <<https://www.rba.gov.au/publications/bulletin/2020/sep/the-rental-market-and-covid-19.html>>.