three growth markets in australia

a demographic analysis

Changes in fertility and migration over the past decade or so have gone some way to balancing the baby boomers in Australia's population profile. Using **.id**'s projections, we identify two additional growth sectors, trailing the baby boomer generation by around 30 and 60 years

.id the population experts

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contents

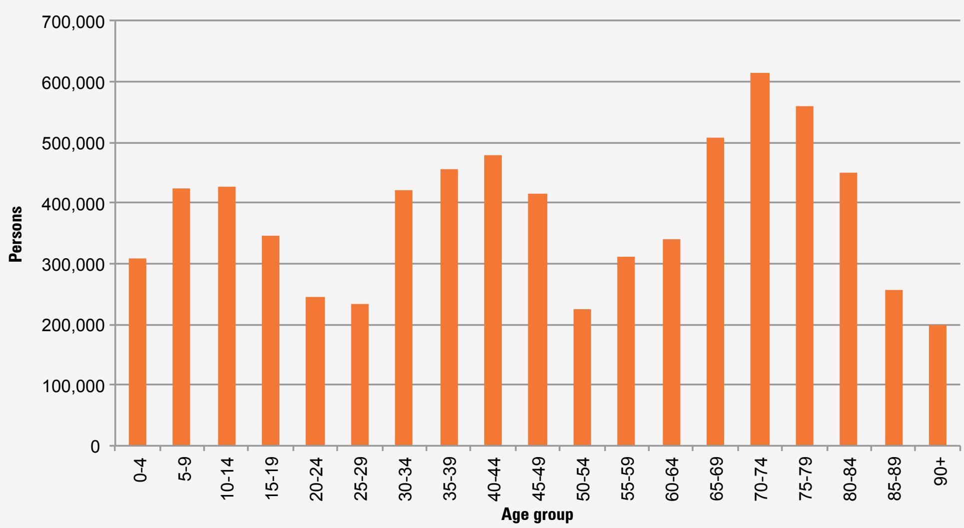
overview

A lot has been made in Australia in recent years about the challenges presented by an ageing population. The baby-boomer generation, already making the move into retirement, will place considerable weight on Australia's supportive infrastructure and test our public finances.

However, while this narrative is regularly repeated throughout the Australian mainstream media, it has become a little dated. First of all, there was something of a 'structural break' in Australian population dynamics around the turn of the millennium, with changing trends in fertility and migration asserting themselves. As a result, extrapolations of current trends result in projections that are a lot less dire than those presented just a decade or so ago.

What's more, if we consider where the bulk of population growth is going to occur over the next twenty years, .id projections identify two population peaks following around 30 years and 60 years after the initial baby-boomer surge (Figure 1.). However, as we show, these are not simply generational 'echoes' and in large part are driven by recent changes to migration.

Figure 1. Population growth by age, 2011-2031



Source: .id Small Area Forecast Information (SAFI), 2015

Though the weight of the population moving into retirement will still present Australia with some challenges, the baby boomers' generational burden is perhaps not as great as initially feared.

The .id projections also highlight two further key growth markets that will define the next 20 years. That is, alongside significant growth of the retirement-aged population, there will also be considerable growth in people moving through their peak-earning years, as well as considerable growth in school-aged children. It is these three segments that are projected to be the focus of growth in the next twenty years, and their strength will present business with many opportunities.

However, these changes will not be distributed evenly across the Australian landscape, and .id has done considerable work to see where these changes will occur, street-by-street and suburb-by-suburb. It is this analysis that is most highly valued by our clients, and it has become an essential component of their business planning processes.

In the remainder of this paper we consider the trends that defined the Australian population between 1971 and 2001. From there we explain the key shifts in both fertility and migration that occurred between 2001 and 2011 and what impact this has had on Australia's population profile. We are then able to project 20 years into the future and identify the groups that will be growing most quickly.

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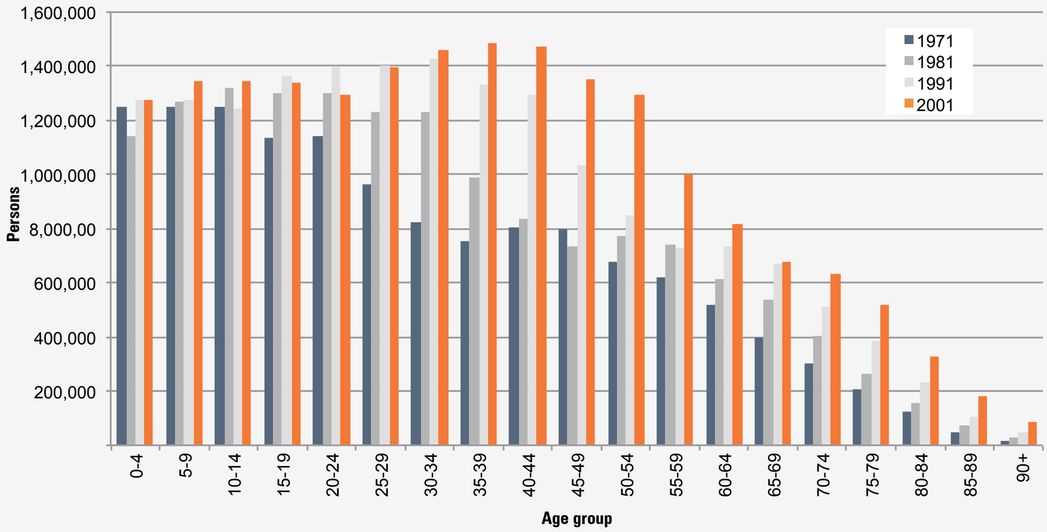
an ageing population: 1971 to 2001

To understand where we're going, we first need to understand where we've been. Figure 2 tracks the Australian population over the 30-year period between 1971 and 2001.

Figure 2. Population by age, 1971-2001



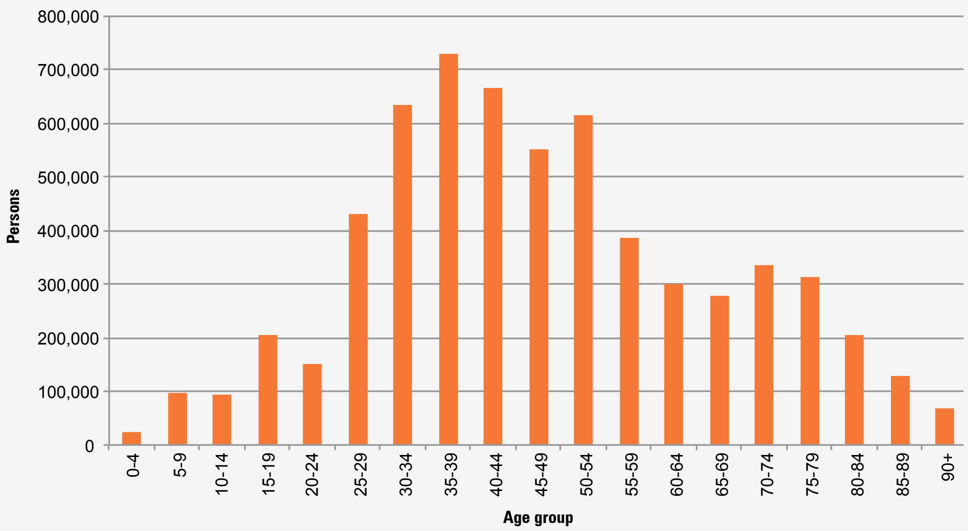
Source: ABS Australian Demographic Statistics, 2015

The black bars are a snap-shot of the Australian population in 1970. At that time, with high birth rates and a relatively lower life expectancy, the Australian population was weighted towards the younger generations.

However, moving through the dark grey, light grey and then the orange bars, we can see the baby boomers (who were in their mid-twenties in 1971) moving through the population profile, and the population becoming centred around a higher average age.

Interestingly, the number of children in the population remained relatively static. Figure 3 presents the total change in each age group between 1971 and 2001. While there was strong growth in the 'middle-aged' group, the number of children barely moved, primarily reflecting a trend decline in fertility rates through this period.

Figure 3. Population growth by age, 1971-2001



Source: ABS Australian Demographic Statistics, 2015

At the same time, there was a solid increase in the older generation as life expectancy increased substantially. As a result, the centre of gravity shifted, and the Australian population aged.

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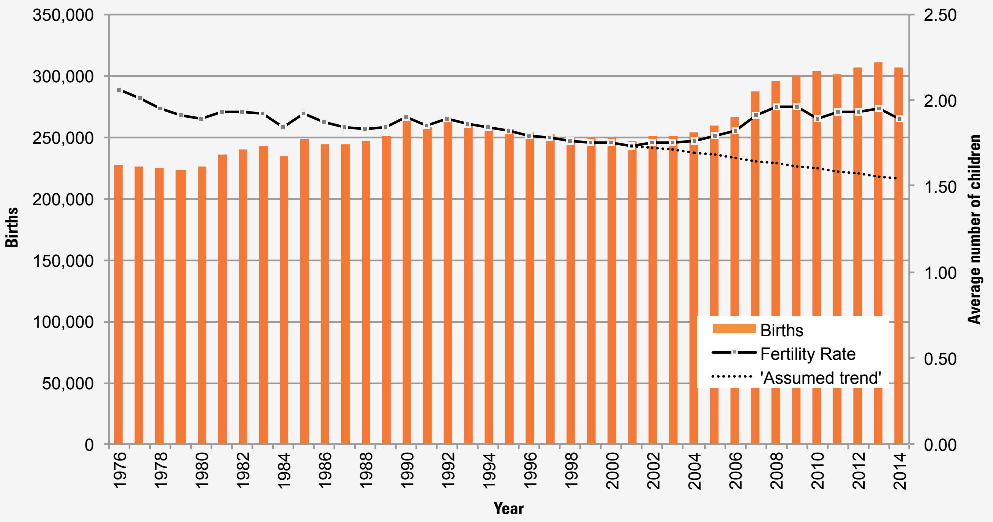
a turning tide: 2001 to 2013

However, between 2001 and 2011 we saw major shifts in population growth patterns emerging. Fertility reversed a long run decline, and migration rose to record levels. There were even considerable changes in the make up of interstate migration in this period.

fertility

Figure 4 tracks the Australian fertility rate and total number of births between 1976 and 2014. What it shows is that there was a sustained trend decline in fertility in the years leading up to 2001. Greater freedom for women in their family choices, changing preferences and the introduction of the pill caused a sharp fall in fertility in the 1960s and 70s, which persisted into the early years of the new millennium. As a result the actual number of births per year plateaued out around 1985, and remained practically unchanged over the next 20 years.

Figure 4. Australian fertility rate and number of births, 1976-2014



Source:
ABS, Australian Historical Population Statistics, 2008,
ABS, Australian Demographic Statistics

Population projections made around the turn of the millennium were built on the expectation that the fertility rate in Australia would continue to decline (the dotted line), following the lead of mature countries like Italy, Germany and Japan. However, around 2004/5 the fertility rate actually picked up, and picked up substantially to just under 2 children per woman. This is relatively close to so-called 'replacement levels' of about 2.1 children per woman.

As a result, the number of children born each year in Australia has increased to a level about 50,000 children over and above long-term averages. So in just 7 years, we've added an extra 350,000 children to the population, over and above our "business as usual" numbers. This has created a major disruption in this market segment, and has major implications for education, childcare, children's consumables and so on.

It is interesting to theorise about what caused this sudden reversal in Australian fertility. Australia is not alone. Figure 5 tracks fertility rates in a number of Western countries. In countries like Canada (orange line) and in Northern Europe (blue line), the recovery in fertility rates has been even more pronounced. Even in Japan (green line) fertility rates seem to have found a floor, and are tentatively moving upwards again.

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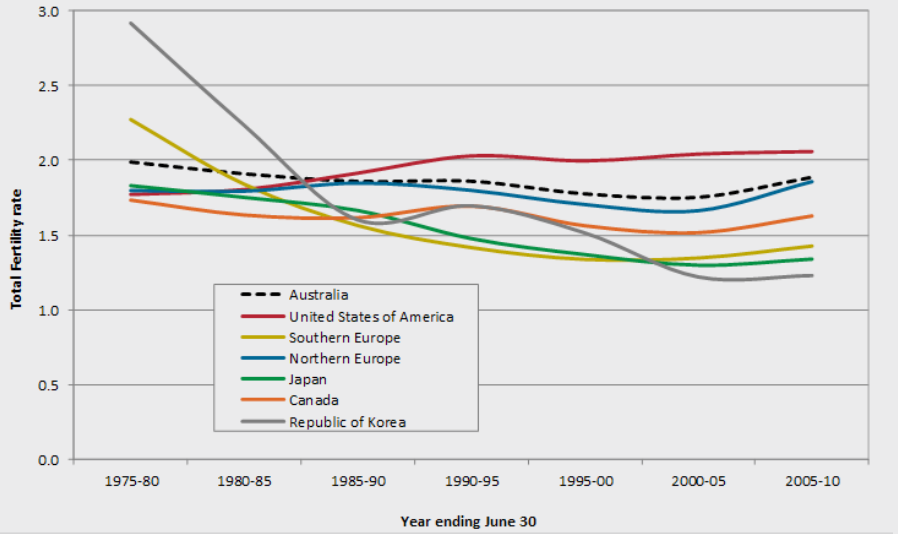
Figure 5. Fertility rates, selected countries, 1975-2010



Source:
United Nations,
Population Division,
World Population
Prospects

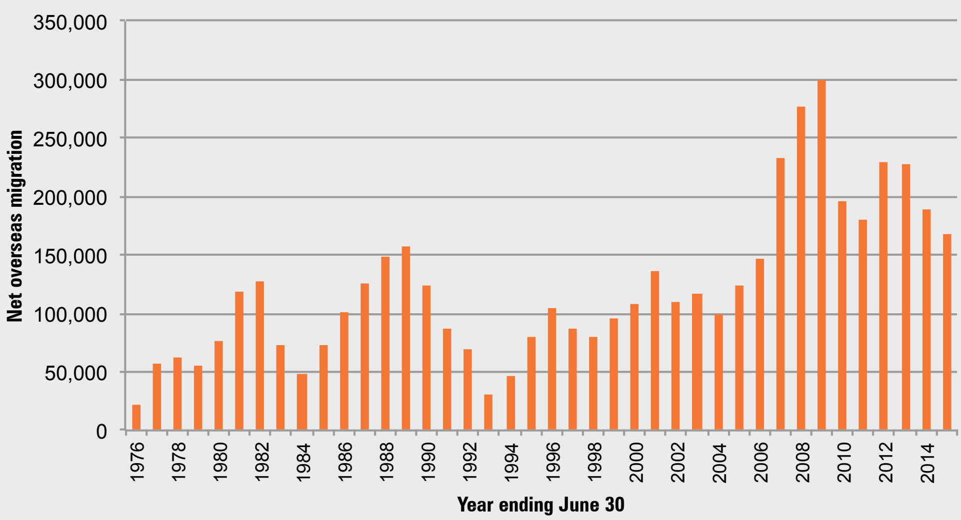
At any rate, it is too early to tell in Australia if fertility rates will sustain the recent upward trend, or will find a new level somewhere around the replacement rate. However, what is known is that there has been a substantial increase in the number of children born over the past seven or so years. It has created a minor population bulge that will work its way through the system over time.

overseas migration

Figure 6 tracks Net Overseas Migration (immigration less emigration) between 1976 and 2015. Through the thirty-year period between 1976 and 2006, migration has moved in cycles broadly correlated with the business cycle. That is, there were periods of very low migration coinciding with the early 80s and early 90s recessions. However, through that period, even in the biggest years net migration never exceeded 150,000 persons a year.

From 1995 onwards, coinciding with Australia's strong economic run, net migration has barely fallen below 100,000 persons a year, resulting in a sustained contribution to population growth over this period.

Figure 6. Net overseas migration, 1976 to 2015



Source:
ABS, Australian
Demographic
Statistics

However, what really stands out in this chart is the spike in migration that coincided with the GFC. In 2008 migration surged, topping out at 300,000 persons in 2009 – a figure double the previous peaks. With the Australian economy the 'envy of the world' throughout the GFC, Australia became an attractive destination for foreigners, and many Australians living overseas repatriated.

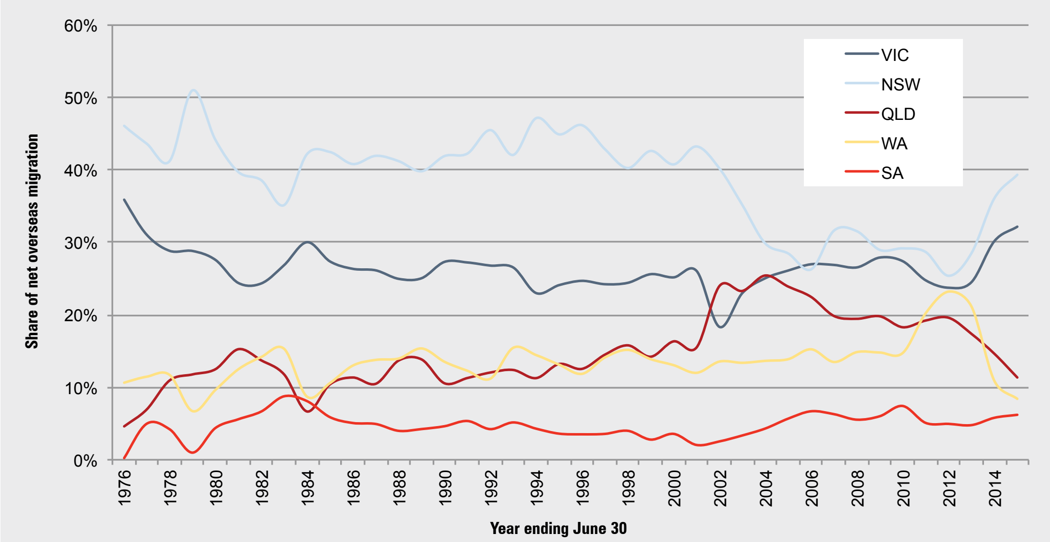
What's more, there appears to have been a level shift increase in migration, which held around the 200,000 mark before declining in a cyclical fashion. This means that migration is having a big impact on Australian population growth. We had a sustained period of high migration prior to the GFC, and post GFC we had a sustained period of very high migration. Although this has tempered somewhat in the last couple of years, it is still above previous hights. It is likely that in the short-term, the fertility rate does not benefit from this mass wave of migration, as a large share of the migrant population is not interested in becoming parents because they are here to study and get a foothold in the Australian labour force. However, in the medium to long term, they boost the pool of potential parents significantly.

interstate migration

While there has been a solid and sustained increase in migration, there has also been fluctuations in the destinations those migrants are choosing to call home. Figure 7 shows that traditionally, the large majority of immigrants headed for NSW (sky blue) and Victoria (navy blue).

However, for about a decade, there was a period of convergence in migration shares. Around the turn of the millennium there was a pick up in migration to Queensland, taking share from NSW in particular and Victoria to some degree. This leveled off significantly from 2012 onwards. The influence of the mining boom and bust in WA is also evident between 2010 and 2014. These changes in destination preferences will have a major impact on state economies.

Figure 7. Net overseas migration by state, 1976 to 2015



Source:
ABS, Australian Demographic Statistics

There have also been significant changes in the flows of interstate migration. Typically, Victoria and NSW experienced net population outflows, often as new migrants decided to establish themselves elsewhere (Figure 8).

To a large extent Queensland was the beneficiary of these population outflows, and has typically enjoyed strong population growth through interstate migration.

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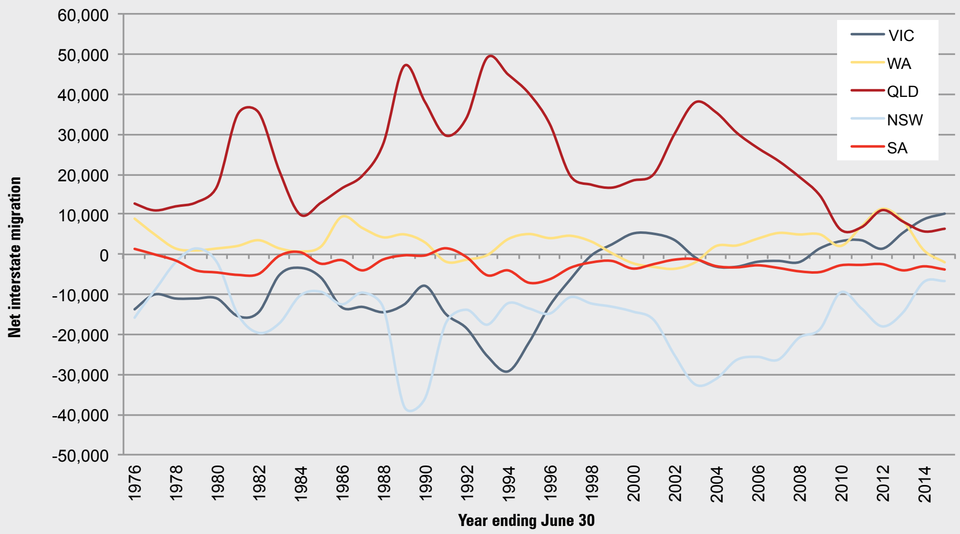
Figure 8. Net interstate migration, 1976 to 2015



Source:
ABS, Australian Demographic Statistics

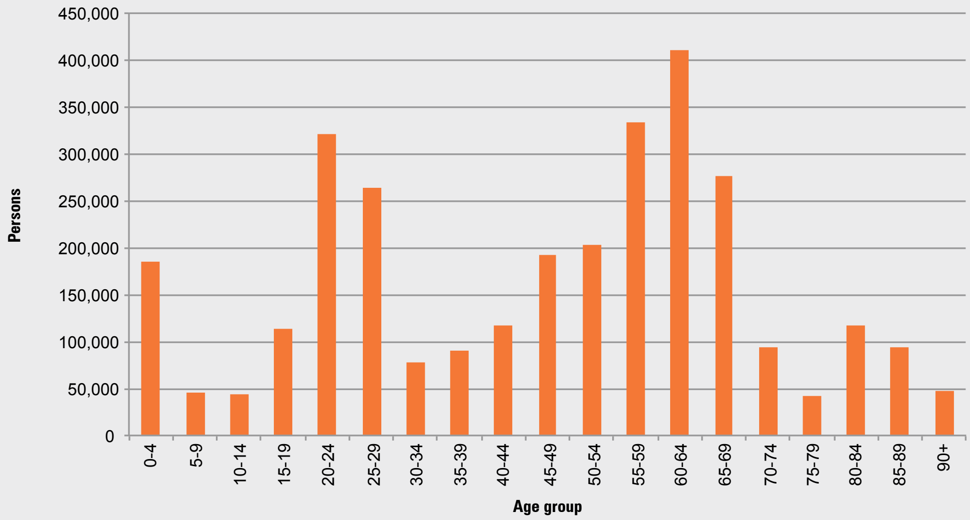
However, over the last decade or so, this has been largely unwound. Interstate migration into Queensland has eased considerably, as have population losses in NSW. However the real news here is Victoria, which for the first time in a long time has enjoyed positive (if small) net interstate migration. There has also been a fillip in interstate migration into Western Australia in recent years, again reflecting the influence of the now receeding mining boom.

a three horse race

The trend reversal in fertility rates, together with sustained strength in migration has changed the trajectory and shape of the Australian population over the past decade or so.

Figure 9 demonstrates the growth in each age group between 2001 and 2011. The baby boomer bulge is evident in the growth of 55-70 year olds, but it is not the only story. There has also been strong growth in the number of people in their early and mid twenties, largely on the back of stronger migration, as well as strong growth in the number of infants, reflecting the pick-up in fertility rates as well as growth in the parent age groups, notably 25-29 year olds.

Figure 9. Population growth by age, 2001-2011



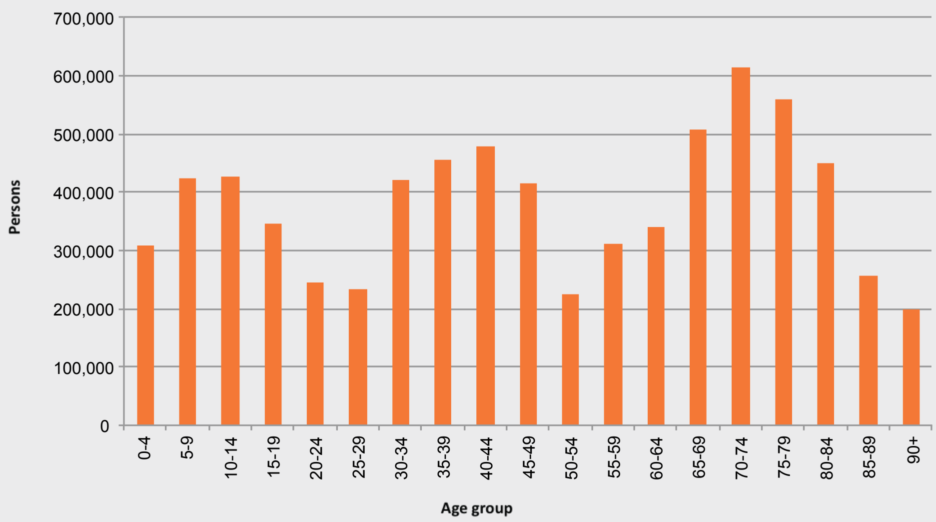
Source:
ABS, Australian Demographic Statistics 2013

And so in terms of population, it's a three horse race. There is a baby boomer generation, a young adult generation, and an infant generation moving through the system. As a result, for business the Australian future holds three significant growth sectors.

three pillars: 2011 to 2031

If we take the current population profile, we can see these three population spikes moving through the generations and defining the shape of the Australian population in 2031 (Figure 10.)

Figure 10. Population growth by age, 2011-2031

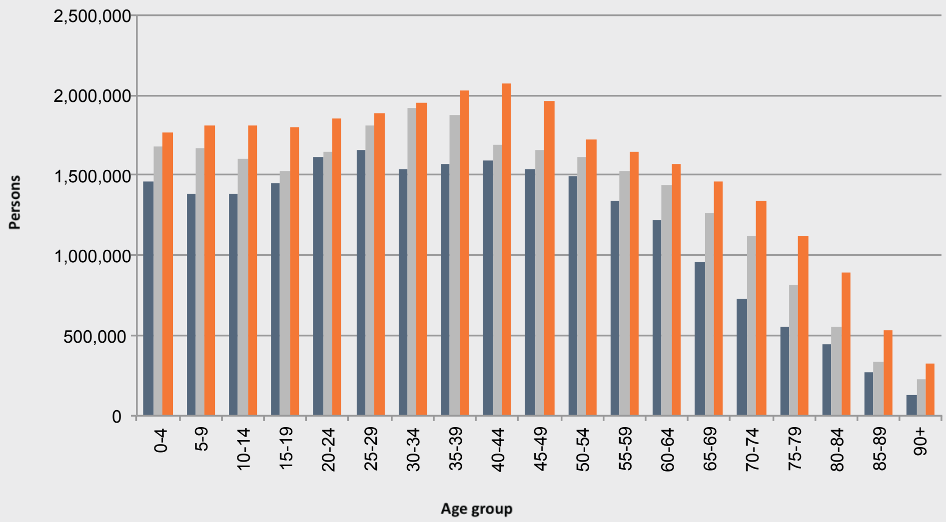


Source:
.id Small Area
Forecast Information
(SAFI), 2013

These projections have been produced using a number of key assumptions. In particular, we expect overseas migration to remain relatively strong, with a net gain of approximately 200,000 per year. We also expect the fertility rate to steady, rather than continue its upward trend, which will temper growth in infant and child age groups somewhat.

Nevertheless, recent trends mean that as the baby boomers enter their declining years, there will be strong growth in the two generations behind them. This is a healthy thing for Australia. Indeed, compared to the demographic challenges mounting in Japan, China, Italy and a number of countries around the world, Australia's demographic profile is relatively robust (Figure 11.)

Figure 11. Population by age, 2011-2031



Source:
.id Small Area
Forecast Information
(SAFI), 2013

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three growth markets

Much has been made of the impact the baby boomers will have on the economy and on business. However **.id** forecasts identify two other growth generations, which, although not as large as the baby boomers, will still have a significant impact on the economy, and importantly, present businesses with many opportunities.

The projections presented here are obviously the big picture macro forecasts for Australia. However, at **.id** we build our forecasts from both the top-down and the ground up, and develop micro level forecasts for our clients, right down to individual blocks and neighbourhoods.

So while these three growth sectors will define the coming twenty years, cities, suburbs and neighbourhoods could have radically different experiences. Our research and the suite of tools available to .id clients help them factor in these specific, market level forecasts into their business planning.

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about the author

Matthew Deacon has been engaged in Australian demographic studies for 20 years, as an analyst and population forecaster. He has a Bachelor of Arts (Hons degree from Monash University, majoring in Geography.

Since joining .id 13 years ago, Matthew has headed .id's forecasting work. He has developed the modelling capabilities of the organisation and built the capacity and capability of the forecasting team, so that now .id has the largest population forecast team in Australia. The modelling processes used have combined traditional demographic techniques with residential development and household relationship components to produce an integrated population forecasting system. This approach has been applied in our local government forecasting work (forecast.id®), which now covers more than 120 Local Government Areas in Australia and New Zealand.

In recent years, Matthew has focussed on developing even more detailed small area forecasting work, known as SAFi (Small Area Forecast Information), which has involved developing a model that combines 'tops-down' constraints with highly detailed population and household forecasts for over 12,000 areas in New South Wales and 10,000 areas in Victoria. Matthew and the SAFi team are currently expanding this coverage to include Western Australia and Queensland.

Matthew has developed an intimate knowledge of population changes at a very local level in Australia, as these are key inputs into the modelling processes. Matthew has a strong interest in Australian cities, in their development and the fundamental interaction between planning, economic forces and social trends on outcomes for population.

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