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## News Release

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### **Slower population growth to ease upward pressure on interest rates** *Impacts on household spending and the housing sector*

Population growth in Australia is set to slow considerably in 2010/11 and 2011/12, as net overseas migration declines from record highs, according to leading industry analyst and economic forecaster, BIS Shrapnel.

This outlook is a key factor of BIS Shrapnel's newly released medium-term forecasts which are part of its *Building in Australia 2010* report. The report notes that in the two years over 2007/08 and 2008/09 net overseas migration delivered a comparable population impact to that observed over the five years to 2005/06.

BIS Shrapnel's Senior Economist, Jason Anderson, says this strong population growth, which equated to 2.1 per cent in 2008/09, has filtered through the Australian economy in many ways.

"Public attention has been directed towards housing markets, particularly the rebound in residential property markets, but there is also undeniable evidence of tight rental markets and acceleration of rental growth," says Anderson.

However, BIS Shrapnel is forecasting a sustained decrease in net overseas migration over the next two years. Net overseas migration is expected to be down to 175,000 persons in 2010/11 and 145,000 persons in 2011/12. As a result, national population growth is expected to slow to about 1.5 per cent in 2010/11, and 1.3 per cent in 2011/12.

BIS Shrapnel says the source of this shift is found in evaluating the impact of long-term visitors and departures, which comprise a large proportion of net overseas migration.

"Most of the rise in net overseas migration over the past three years has been the result of a surge in the number of long-term visitors, not permanent migrants," says Anderson. "The increase was greatest in 2008/09, when the net population gain from long-term visitors accounted for 74 per cent of the national net overseas migration gain of 298,900 persons."

BIS Shrapnel says there have been two main groups behind this rise in long-term visitors – skilled workers under Temporary Business (Long Stay) visas (the 457 category), and international tertiary education students.

While a proportion of these long-term visitors will be aiming to obtain permanent residency, the great majority do not. For both student and worker groups there will be a corresponding rise in the number of long-term departures over the next three years. The maximum duration of 457 visas is four years, and many overseas students will complete their degrees in a four or five year period.

"The bottom line is that long-term departures will rise – particularly at a span of about four years from 2007 and 2008, when the long-term arrivals numbers jumped," says Anderson.

“At the same time, there will be a distinct path for long-term arrivals. The migration data already shows a levelling off in arrival numbers and it seems likely that the number of skilled worker visas will flatten out in 2010, before rising again in 2011 and 2012, tracking the employment growth rate.

“On the outlook for overseas student numbers, given the high Australian dollar, we expect that growth in enrolments will be slower over the next two years.”

As a result, the annual increase in long-term departures is expected to be greater than the increase in long-term arrivals from 2010 to 2012. BIS Shrapnel says the net inflow of long-term visitors will make a much smaller contribution to population growth, and a slower rate of population growth is expected to feed through the national economy.

“We should expect to see some dampening of household spending growth but there should also be some alleviation of inflationary pressure that has resulted from the strong demand growth for domestic goods and services,” says Anderson. “In terms of the housing sector, shortages will remain and there will be less upward pressure on interest rates.”

BIS Shrapnel says even with lower population growth, the rate of new dwelling construction will remain below underlying demand, so shortages will persist and rental markets will stay very tight.

“If net overseas migration had stayed at the 2008/09 level of 300,000 persons per annum, then the queues for some rental properties would have started snaking around the block,” says Anderson.

“The economy can handle moderate household spending growth because there is already solid growth in national income in store for 2010/11. The impending jump in Australia’s export incomes, due to the surge in commodity prices, is set to provide a large income injection – mainly for company profits, tax revenues and state government royalties.”

However, the retail sector is the nation’s biggest employer, so overall employment growth is likely to be moderate, as population growth slows. BIS Shrapnel is forecasting the unemployment rate will remain above five per cent during 2010/11.

In this context, there should be less upward pressure on interest rates in 2011 and 2012 – which would support turnover of established properties and demand for new dwellings. BIS Shrapnel expects the Reserve Bank of Australia will make only two interest rate rises in 2010/11, so the standard housing variable rate will be about 7.9 per cent by June 2011.

“Overall, a few years of weakening population growth will have some mixed effects on the economy,” says Anderson. “It will lead to more moderate growth in household spending, at a time when the income gains from the commodity cycle will already be boosting national income.

“This combination would allow for a relatively benign interest rate environment, which would be supportive of residential property markets, and enable a sustained increase in dwelling construction, which is badly needed to address the shortages that already exist.”

### **About BIS Shrapnel**

BIS Shrapnel is Australia’s leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company’s 46-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.