

AUSTRALIAN MARKETS WEEKLY

The weakest population growth in a century as Australia closed its border



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Analysis – The weakest population growth in a century as Australia closed its border

- Migration-driven population growth has been a defining feature of the Australian economy for several years, where growth has been strong by both past standards and compared with other advanced economies. International students account for almost half of net overseas migration, while just over half of migrants are from India, China and Nepal (there is significant overlap in that these countries are also important sources of students).
- With Australia's international border closed, with some exemptions, net overseas migration has largely stopped. Assuming a broadly unchanged contribution from the natural increase in the population, lower net overseas migration should see Australia's population growth more than halve to 0.7% in 2020-21, which would be the smallest increase since World War 1.
- Economic recovery has tentatively commenced with state governments beginning to ease some health restrictions, although the shape of the recovery is highly uncertain with weaker population growth likely to be a drag on recovery while the international border remains closed. The Commonwealth is considering allowing travel between Australia and New Zealand, but more important is whether long-term migration can recommence earlier, particularly for students.

The week ahead – AU NAB business survey, Treasurer's update, Unemployment data and NZ budget and MPS

- **Australia.** On Tuesday, the treasurer reports on the impact of the virus on the economy and the government's fiscal response to date, where revised budget forecasts may be held over to the June update. Thursday's April labour data should be grim. NAB expects job losses to total 650k (mkt: -550k), with unemployment almost doubling to 9% (mkt: 8%) on its way to a forecast peak of about 12% in June. A risk to our unemployment forecast is that more people have dropped out of the workforce than we expect, but we know 1 million people have lost jobs until early May, so May's figure is higher still. Wages on Wednesday should rise by 0.4% in Q1 (mkt: 0.5%). The NAB April business survey is due Tuesday, which should provide further insight on the hit to the economy. **NZ:** It's a massive week with Wednesday's RBNZ Monetary Policy Statement and Thursday's Budget. The market is focused on whether there is any change to the statement that the NZ cash rate is expected to remain at 0.25% for the next twelve months. There is also Friday's PMI.
- **CH:** Key indicators on Friday will show if the sharp recovery in March is sustained. **US:** On Friday, April retail sales and industrial production should show steep falls in line with other US April economic indicators. **EZ:** Euro area Q1 GDP and March industrial production should show sharp contractions.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6546	1.8	RBA cash	0.14	0
AUD/CNY	4.64	2.5	3y swap	0.23	-4
AUD/JPY	70.0	2.0	ASX 200	5,461	2.7
AUD/EUR	0.604	2.4	Iron ore	84	4.7
AUD/NZD	1.067	0.4	Brent oil	30.4	11.7

Source: Bloomberg

The weakest population growth in a century as Australia closed its border

- Migration-driven population growth has been a defining feature of the Australian economy for several years, where growth has been strong by both past standards and compared with other advanced economies. International students account for almost half of net overseas migration, while just over half of migrants are from India, China and Nepal (there is significant overlap in that these countries are also important sources of students).
- With Australia's international border closed, with some exemptions, net overseas migration has largely stopped. Assuming a broadly unchanged contribution from the natural increase in the population, lower net overseas migration should see Australia's population growth more than halve to 0.7% in 2020-21, which would be the smallest increase since World War 1.
- Economic recovery has tentatively commenced with state governments beginning to ease some health restrictions, although the shape of the recovery is highly uncertain with weaker population growth likely to be a drag on recovery while the international border remains closed. The Commonwealth is considering allowing travel between Australia and New Zealand, but more important is whether long-term migration can recommence earlier, particularly for students.

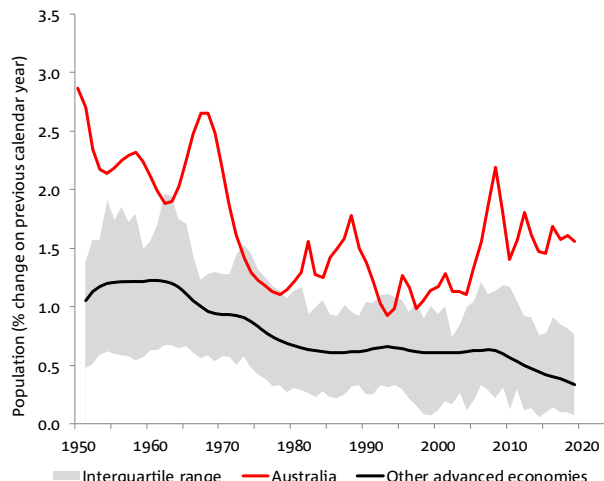
Australia's population growth has been strong relative to both history and other countries

One of the defining features of the Australian economy for more than a decade has been strong migration-driven population growth. However, growth is likely to be weak for some time given Australia has closed its international border, with the prime minister signalling very little net overseas migration through to June 2021.

Australia's population growth has been consistently strong relative to both history and other advanced economies.

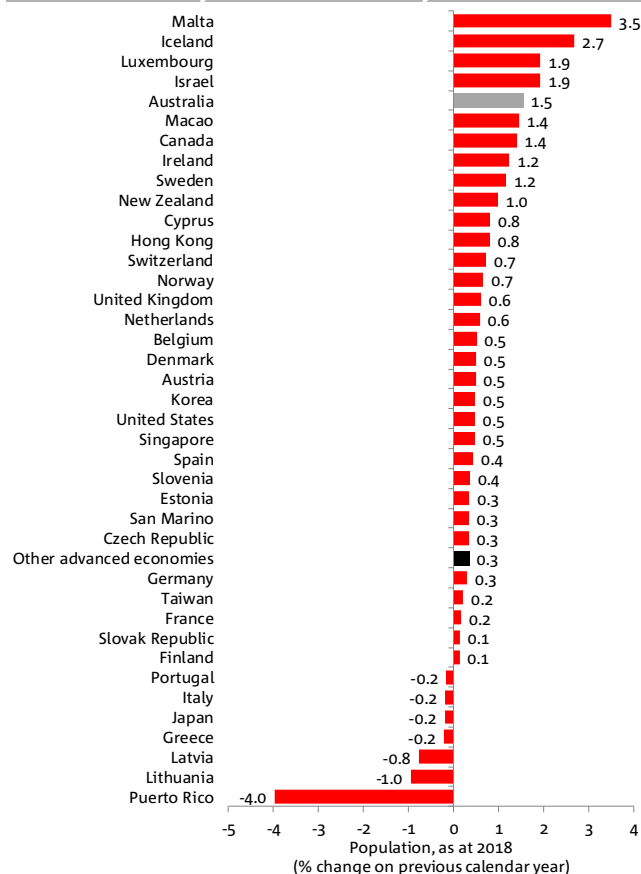
- The national population has grown at an average of 1.5% in the 2010s to date, the same as the 2000s and the fastest compound growth since the average 2.2-2.3% growth of the 1960s and 1970s.
- Australia's current population growth of 1.5% is surpassed by only a handful of small advanced countries. Annual growth in all other advanced economies has slowed to 0.3%, which is the smallest increase since the end of World War 1.

Chart 1: Australia's strong population growth has contrasted with the weak increase in other countries



Source: Australian Bureau of Statistics, Our World in Data, World Bank, National Australia Bank

Chart 2: Australia's population is almost growing at the fastest rate of any advanced economy

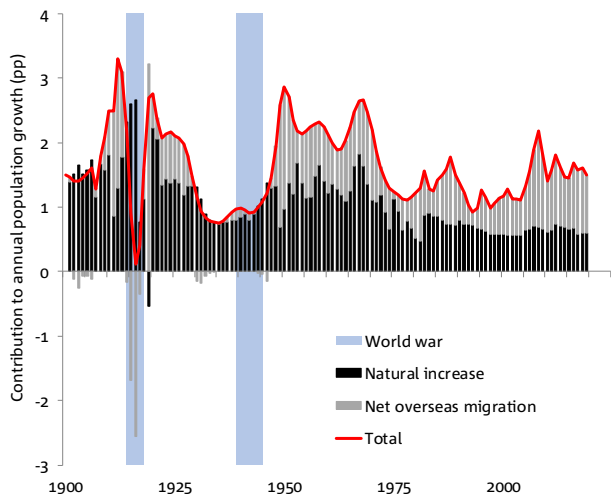


Note: Australian growth is over the year to Q3 2019. US growth is as at 2019.
Source: Australian Bureau of Statistics, US Census Bureau, World Bank, National Australia Bank

The closure of the border greatly reduces net overseas migration and hence population growth

The strong growth in the population has for many years been driven by net overseas migration. Net overseas migration has accounted for about 60% of population growth since the global financial crisis, which is the strongest consistent contribution since federation.

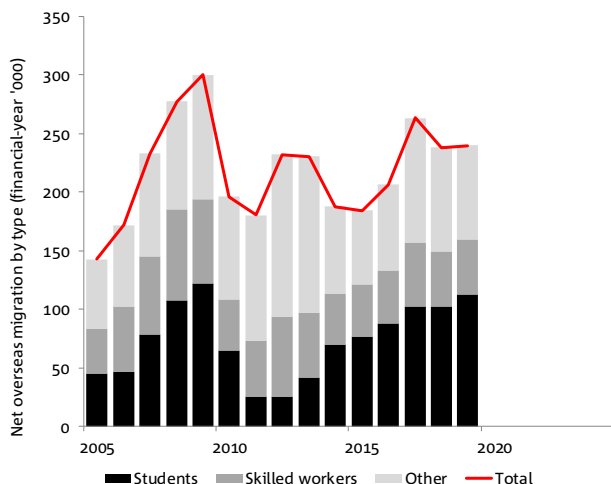
Chart 3: Australia’s strong population growth reflects net overseas migration



Note: Calendar-year data. 2019 is estimated based on the year to date.
Source: Australian Bureau of Statistics, National Australia Bank

Most of the migration is driven by temporary visas for students, which accounted for almost half of net overseas migration in 2018-19. Temporary and permanent skilled workers tend to be more stable and account for close to 15% of net overseas migration. Just over half of net overseas migration last financial year was from three countries, namely, India, China and Nepal, all of which are an important source of students.

Chart 4: Students account for almost half of Australia’s net overseas migration



Note: Skilled workers are both temporary and permanent.
Source: Australian Bureau of Statistics, National Australia Bank

Table 1: Asia accounts for the bulk of Australia’s net overseas migration

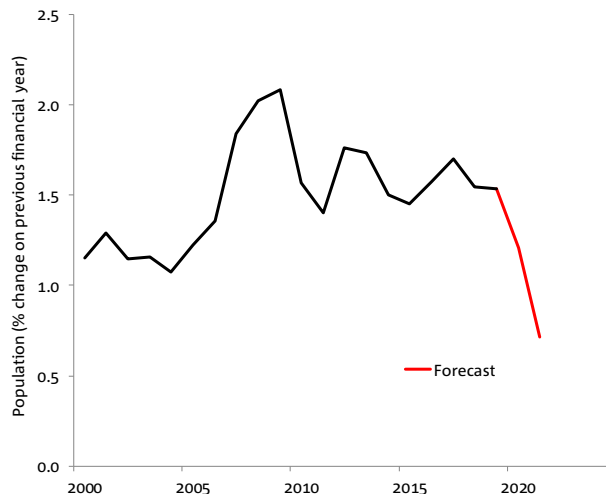
Net overseas migration as at 2018-19		
	'000	% total
1. India	69	29
2. China	29	12
3. Nepal	23	10
4. Philippines	17	7
5. UK	8	3
Other countries	93	39
Total	240	100

Source: Australian Bureau of Statistics, National Australia Bank

With Australia’s international border closed, except with some exemptions, net overseas migration has largely stopped. The prime minister has said that net overseas migration will fall just over 30% in 2019-20 and be 85% below last year’s level in 2020-21.¹ The PM did not discuss the longer-term outlook, although we note that the Reserve Bank assumes population growth will be back its pre-pandemic level by mid 2022.

Assuming a broadly unchanged contribution from natural population growth, the reduction in net overseas migration should see population growth slow from 1.5% in 2018-19 to 1.2% in 2019-20 and 0.7% in 2020-21.

Chart 5: Closing Australia’s border could see the weakest population growth since World War 1



Note: The forecasts assume an unchanged contribution from natural increase and a 30% fall in net overseas migration in 2019-20 and a further 55% fall in 2020-21.
Source: Australian Bureau of Statistics, Commonwealth Government, National Australia Bank

Weak population growth equals slower economic growth

A tentative economic recovery has started with state governments starting to ease health restrictions, although the pace of recovery remains highly uncertain. Other things being equal, weak population growth will be a drag on economic growth until the government opens the national border, although there has been some talk about re-opening earlier for students

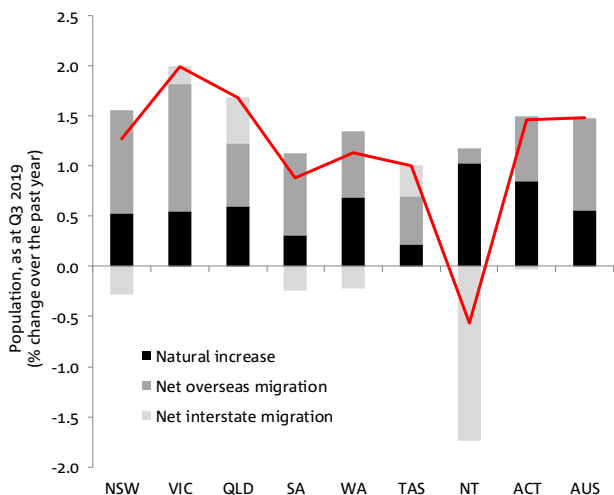
In the meantime, given the skew of net overseas migration towards international students, a very large negative effect is being felt on the education sector, where exports of education services account for about 3% of annual GDP, more than triple the size of international tourism. Consumer spending is also weaker than would otherwise be the case, while Reserve

¹ See Prime Minister Morrison, *Transcript*, 1 May 2020.

Bank modelling points to a slower recovery in housing construction, higher vacancy rates, weaker rents and a slower eventual rebound in house prices.²

Geographically, the greatest impact of weaker net overseas migration is likely to be felt in New South Wales and South Australia, although overseas migration is very important to every jurisdiction except the Northern Territory.

Chart 6: Net overseas migration is important to almost every state and territory



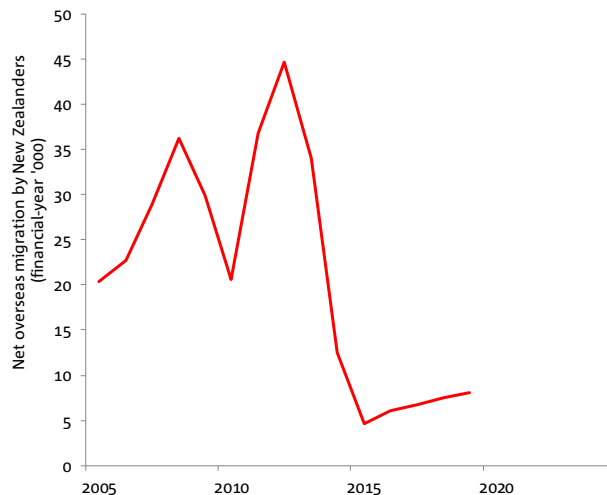
Source: Australian Bureau of Statistics, National Australia Bank

Long-term migration might recover sooner, at least for international students

The prime minister has been at pains to emphasise that re-opening the national border will be one of the last restrictions that will be lifted. The PM has canvassed the idea of allowing travel with New Zealand and the Pacific islands, which would be positive for tourism, but is unlikely to have a major effect on net overseas migration.

More important is whether the government will permit earlier re-opening of some forms of long-term migration from Asia, particularly for students, via some form of quarantine. If this happened it would point to a smaller drag from population growth on economic growth over the next year and a half.

Chart 7: Net overseas migration on 444 visas from New Zealand is small



Source: Australian Bureau of Statistics, National Australia Bank

Kieran Davies

² See Trent Saunders and Peter Tulip, *A model of the Australian housing market*, Reserve Bank of Australia Discussion Paper RDP 2019-01, March 2019.

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday 11 May 2020								
NZ	ANZ Business Confidence	May P		--		-66.6	0.00	11.00
Tuesday 12 May 2020								
NZ	ANZ Truckometer Heavy MoM	Apr		--		-8	21.00	8.00
CH	PPI YoY	Apr		-2.6		-1.5	0.30	11.30
CH	CPI YoY	Apr		3.7		4.3	0.30	11.30
AU	NAB Business Conditions	Apr		--		-21	0.30	11.30
AU	NAB Business Confidence	Apr		--		-66	0.30	11.30
US	NFIB Small Business Optimism	Apr		86.5		96.4	9.00	20.00
US	CPI MoM	Apr		-0.7		-0.4	11.30	22.30
US	CPI YoY	Apr		0.4		1.5	11.30	22.30
Wednesday 13 May 2020								
JN	BoP Current Account Balance	Mar		2034.2		3168.8	22.50	9.50
AU	Westpac Consumer Conf Index	May		--		75.6	23.30	10.30
AU	Wage Price Index QoQ	1Q	0.4	0.5		0.5	0.30	11.30
AU	Wage Price Index YoY	1Q	2	2.1		2.2	0.30	11.30
NZ	RBNZ Official Cash Rate	May 13	0.25	0.25		0.25	1.00	12.00
UK	Industrial Production YoY	Mar		-9.2		-2.8	5.00	16.00
UK	Monthly GDP (MoM)	Mar		-7.9		-0.1	5.00	16.00
UK	GDP YoY	1Q P		-2.2		1.1	5.00	16.00
EC	Industrial Production WDA YoY	Mar		-11.2		-1.9	8.00	19.00
US	PPI Final Demand MoM	Apr		-0.4		-0.2	11.30	22.30
US	PPI Final Demand YoY	Apr		-0.2		0.7	11.30	22.30
Thursday 14 May 2020								
NZ	Net Migration SA	Mar		--		8250	21.45	8.45
AU	Consumer Inflation Expectation	May		--		4.6	0.00	11.00
AU	Employment Change	Apr	-650	-550		5.9	0.30	11.30
AU	Unemployment Rate	Apr	9	8.3		5.2	0.30	11.30
AU	Participation Rate	Apr	65	65.3		66	0.30	11.30
NZ	NZ Budget						1.00	12.00
GE	CPI YoY	Apr F		0.8		0.8	5.00	16.00
Friday 15 May 2020								
NZ	BusinessNZ Manufacturing PMI	Apr		--		53.2	21.30	8.30
JN	PPI YoY	Apr		-1.4		-0.4	22.50	9.50
CH	Retail Sales YTD YoY	Apr		-12		-19	1.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Apr		-9		-16.1	1.00	12.00
CH	Industrial Production YTD YoY	Apr		-4.8		-8.4	1.00	12.00
GE	GDP WDA YoY	1Q P		-2		0.4	5.00	16.00
EC	GDP SA YoY	1Q P		-3.3		-3.3	8.00	19.00
US	Empire Manufacturing	May		-65		-78.2	11.30	22.30
US	Retail Sales Advance MoM	Apr		-11		-8.7	11.30	22.30
US	Industrial Production MoM	Apr		-11.4		-5.4	12.15	23.15
US	U. of Mich. Sentiment	May P		67.5		71.8	13.00	0.00
US	U. of Mich. Expectations	May P		--		70.1	13.00	0.00
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		May 13	0.25	0.25		0.25		
Australia, RBA		Jun 2	0.25	0.25		0.25		
Canada, BoC		Jun 3	0.25	0.25		0.25		
Europe, ECB		Jun 4	-0.50	-0.50		-0.50		
US, Federal Reserve		Jun 10	0/0.25	0/0.25		0/0.25		
Japan, BoJ		Jun 16	-0.10	-0.10		-0.10		
UK, BOE		Jun 18	0.10	0.10		0.10		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

FORECASTS

Economic Forecasts															
	Annual % change			Quarterly % change											
				2019				2020				2021			
	2019	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts															
Household Consumption	1.4	-6.6	-0.1	0.4	0.3	0.1	0.4	-0.1	-6.6	-5.6	2.8	1.1	0.7	1.1	1.1
Underlying Business Investment	-2.0	-18.1	-7.7	0.6	-0.4	-1.8	-1.5	-3.9	-15.3	-4.0	1.2	-3.5	1.7	-0.6	0.9
Residential Construction	-7.1	-13.0	5.3	-2.0	-3.5	-1.2	-3.4	-2.0	-7.5	-5.3	2.7	1.3	4.4	4.8	3.9
Underlying Public Spending	4.9	4.0	3.8	1.1	1.7	2.0	0.1	0.8	1.1	1.0	1.0	1.0	0.9	0.8	0.8
Net Exports (a)	1.1	2.6	-1.3	0.4	0.5	0.0	0.1	0.1	2.3	1.3	-1.0	-0.2	-0.3	-0.4	-0.4
Inventories (a)	-0.2	-0.6	0.8	-0.1	-0.3	0.2	0.2	-0.2	-1.7	0.6	1.8	-0.4	0.1	0.0	0.0
Domestic Demand (q/q %)	--	--	--	0.3	0.4	0.4	0.1	-0.2	-5.3	-3.5	2.2	0.8	1.1	1.1	1.2
Dom Demand (y/y %)	1.2	-5.0	0.9	1.2	1.2	1.2	1.3	0.8	-5.0	-8.7	-6.9	-5.9	0.5	5.3	4.3
Real GDP (q/q %)	--	--	--	0.5	0.6	0.6	0.5	-0.3	-7.0	-1.2	4.4	1.5	0.9	0.7	0.8
Real GDP (y/y %)	1.8	-4.3	3.5	1.7	1.6	1.8	2.2	1.4	-6.3	-7.9	-4.4	-2.7	5.6	7.6	3.9
CPI headline (q/q %)	--	--	--	0.0	0.6	0.5	0.7	0.3	-1.9	0.5	0.7	0.2	0.2	0.0	0.3
CPI headline (y/y %)	1.6	0.3	0.7	1.3	1.6	1.7	1.8	2.2	-0.4	-0.3	-0.3	-0.5	1.6	1.1	0.6
CPI underlying (q/q %)	--	--	--	0.3	0.4	0.4	0.5	0.5	0.4	0.4	0.2	0.2	0.1	-0.2	0.0
CPI underlying (y/y %)	1.6	1.7	0.7	1.5	1.6	1.6	1.6	1.8	1.7	1.7	1.5	1.2	0.9	0.4	0.2
Private wages (q/q %)	--	--	--	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.5
Private wages (y/y %)	2.3	1.7	1.2	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5
Unemployment Rate (%)	5.1	10.0	8.7	5.1	5.1	5.2	5.1	5.2	11.7	11.5	11.6	10.8	8.9	7.8	7.3
Terms of trade	5.2	-11.7	-2.2	3.3	1.5	0.2	-5.3	-2.9	-5.0	-2.6	-2.6	1.1	2.0	-0.1	-0.1
Current Account (% GDP)	0.5	0.5	-0.3	-0.4	0.9	1.3	0.2	-0.4	0.9	1.8	0.0	0.0	0.0	-0.4	-0.8

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	11-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Majors						
AUD/USD	0.655	0.62	0.64	0.68	0.69	0.70
NZD/USD	0.61	0.59	0.60	0.62	0.64	0.65
USD/JPY	107.0	109	109	109	109	109
EUR/USD	1.08	1.08	1.10	1.12	1.13	1.14
GBP/USD	1.24	1.23	1.27	1.30	1.32	1.33
USD/CNY	7.08	7.00	6.90	6.85	6.80	6.80
USD/CAD	1.39	1.43	1.41	1.39	1.37	1.35
USD/CHF	0.97	0.98	0.97	0.96	0.96	0.95

Australian Cross Rates

AUD/NZD	1.07	1.05	1.07	1.09	1.08	1.07
AUD/JPY	70.0	68	70	74	75	76
AUD/EUR	0.60	0.57	0.58	0.60	0.61	0.61
AUD/GBP	0.53	0.50	0.50	0.52	0.52	0.52
AUD/CNY	4.64	4.34	4.42	4.62	4.69	4.73
AUD/CAD	0.91	0.89	0.90	0.94	0.95	0.94
AUD/CHF	0.64	0.61	0.62	0.65	0.66	0.66

Interest Rate Forecasts

	11-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Australian Rates						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.10	0.20	0.20	0.25	0.30	0.30
3 Year Swap Rate	0.23	0.34	0.30	0.30	0.30	0.30
10 Year Swap Rate	0.91	0.88	1.00	1.08	1.18	1.28
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60
RBNZ OCR	0.25	0.25	0.25	0.25	0.25	0.25
10-year Bond Yields						
Australia	0.97	0.80	0.95	1.05	1.15	1.25
United States	0.69	0.60	0.70	0.80	0.90	1.00
New Zealand	0.72	0.88	0.88	1.03	1.28	1.38

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

	2019	2020	2021
Australia	1.8	-4.3	3.5
United States	2.3	-6.6	6.7
Eurozone	1.2	-6.5	6.0
United Kingdom	1.4	-6.1	6.2
Japan	0.8	-5.0	3.9
China	6.1	1.0	9.8
India	5.3	2.0	7.6
New Zealand	2.2	-6.5	1.9
World	3.0	-2.6	6.3

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