ANZ AGRI
INFOCUS

REGIONAL MAKING A MOVE

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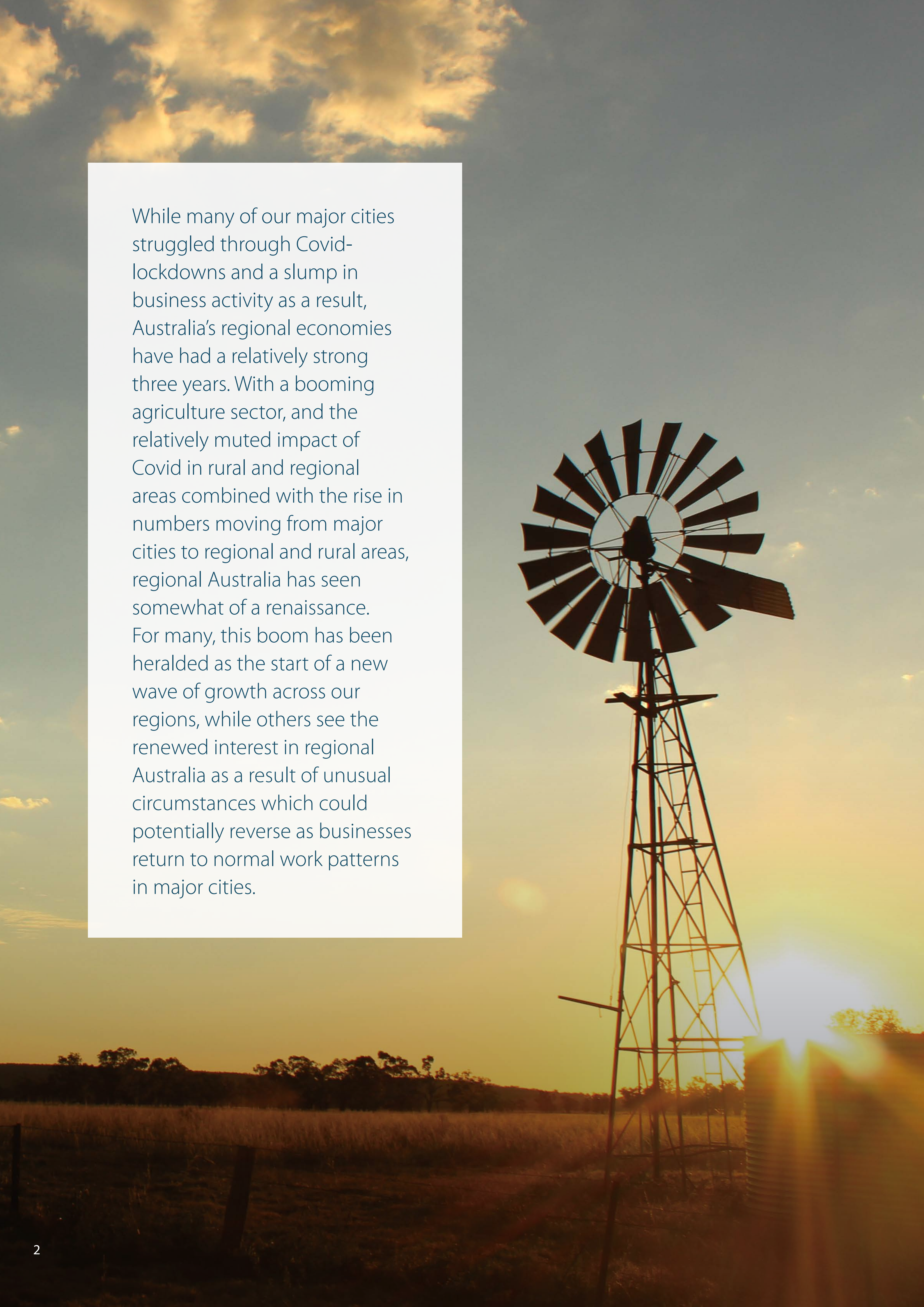

While many of our major cities struggled through Covid-lockdowns and a slump in business activity as a result, Australia's regional economies have had a relatively strong three years. With a booming agriculture sector, and the relatively muted impact of Covid in rural and regional areas combined with the rise in numbers moving from major cities to regional and rural areas, regional Australia has seen somewhat of a renaissance. For many, this boom has been heralded as the start of a new wave of growth across our regions, while others see the renewed interest in regional Australia as a result of unusual circumstances which could potentially reverse as businesses return to normal work patterns in major cities.

FOREWORD

The Covid pandemic threw much of the Australian economy, ways of working and supply chains into a tumultuous time. Lack of worker availability, shipping and freight delay's, transport woes and lockdowns all typified the Covid period. And while we are now looking at Covid in the rear-vision mirror, the lessons and impacts for regional Australia still linger. The boost in population resulting from remote working and lockdowns across major cities, combined with a booming agriculture sector, and solid growth across employment in regional Australia has been heralded by some as the start of a regeneration across regional Australia.

But many questions remain, including whether the Covid pandemic merely highlighted an existing trend, or whether remote working will change the nature of employment in the regions in the long-term? What is motivating the increase in people moving to regional cities? And how does regional Australia ensure that the momentum and interest garnered during Covid is not lost as Australia's major cities return to 'business as usual'?

Data on population trends across the Covid period do highlight the fact that population growth in the 'regions' is not being reflected across all regional areas – in fact population growth is strongest in regional cities, but going backwards in remote areas. Also of interest is that regional population growth is strongest in the smaller, more densely populated States of Victoria, South Australia and Tasmania.

It seems clear that the growth in population in regional Australia cannot be soley attributed to a change in Australian's desire to live in the country, and that regional cities are importantly and increasingly being seen as a viable alternative to major cities based on access of lifestyle, health and education services, remote working and transport.

Behind the headline regional population boom over the Covid period, there are signs that the growth in regional Australia is a longer-term trend, with stronger growth in wages in regional Australia over the 5 years before Covid than in major cities, strong house price growth in the regions of denser populated States and very solid production and growth in key regional industries, most particularly, agriculture.

While the impacts of Covid are likely to fade in time, it is likely that regional Australia will be left with solid momentum for growth, and a renewed attractiveness for many for regional living. The next question becomes whether access to services, infrastructure and expertise in the regions will keep up with the expectations and requirements of new residents and growing industries.

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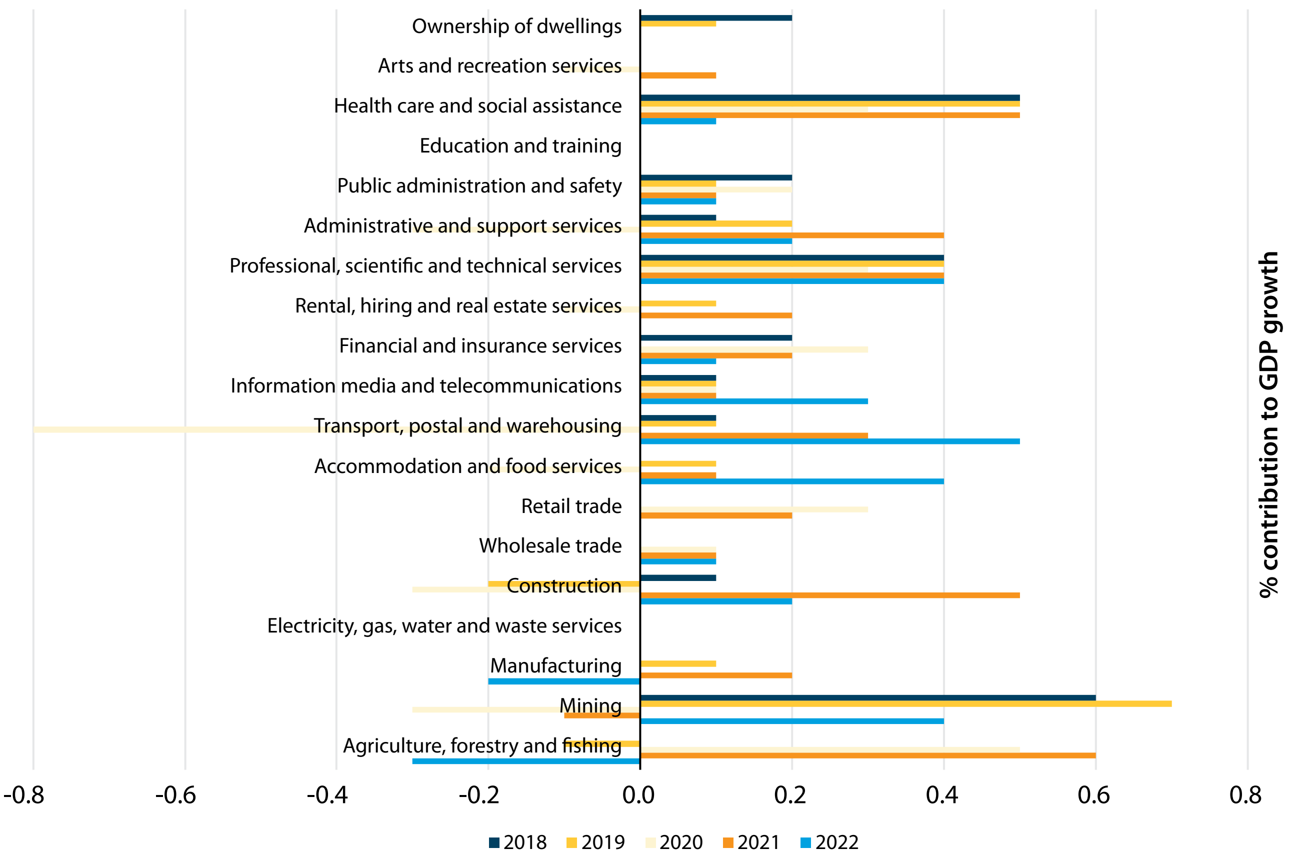
REGIONAL

ECONOMIC ACTIVITY

The Australian economy suffered significantly through the Covid period with contractions in key sectors such as tourism, transport, trade and construction. The domestic economy suffered significant losses throughout the Covid period, including two distinct downturns after the initial Covid wave and the subsequent delta wave. The Australian Bureau of Statistics estimated that up until late 2022, the Australian economy had lost $158 billion in GDP as a result of Covid. Across regional Australia, the impact of Covid on economic growth was mixed, with the mining sector remaining stagnant in the two years from 2020, and the agriculture, forestry and fisheries sector performing strongly. During that time, the key regional industries of agriculture and forestry and fisheries combined to contribute almost 1 per cent of Gross Domestic Product (GDP) growth across two years to the national recovery from Covid.

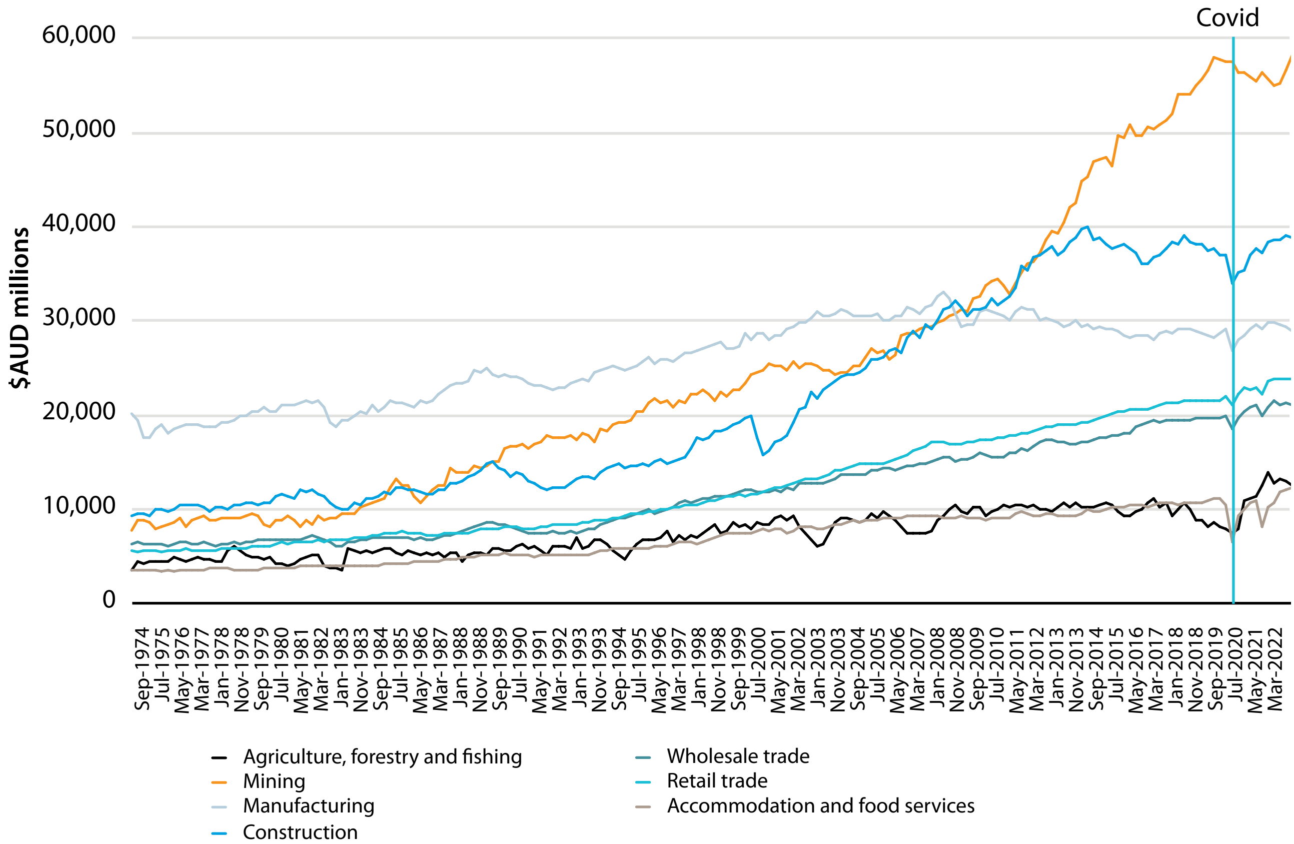
CONTRIBUTION TO AUSTRALIAN GROSS DOMESTIC PRODUCT BY INDUSTRY



Source: ABS, National Accounts

To put this in perspective, however, while the Australian agriculture sector has had a stellar last 3 years, which provided a much needed boost to the Australian economy over the Covid period, growth over the longer-term remains small in comparison with the boom in the other major regional sector – mining.

GROSS VALUE ADDED BY INDUSTRY



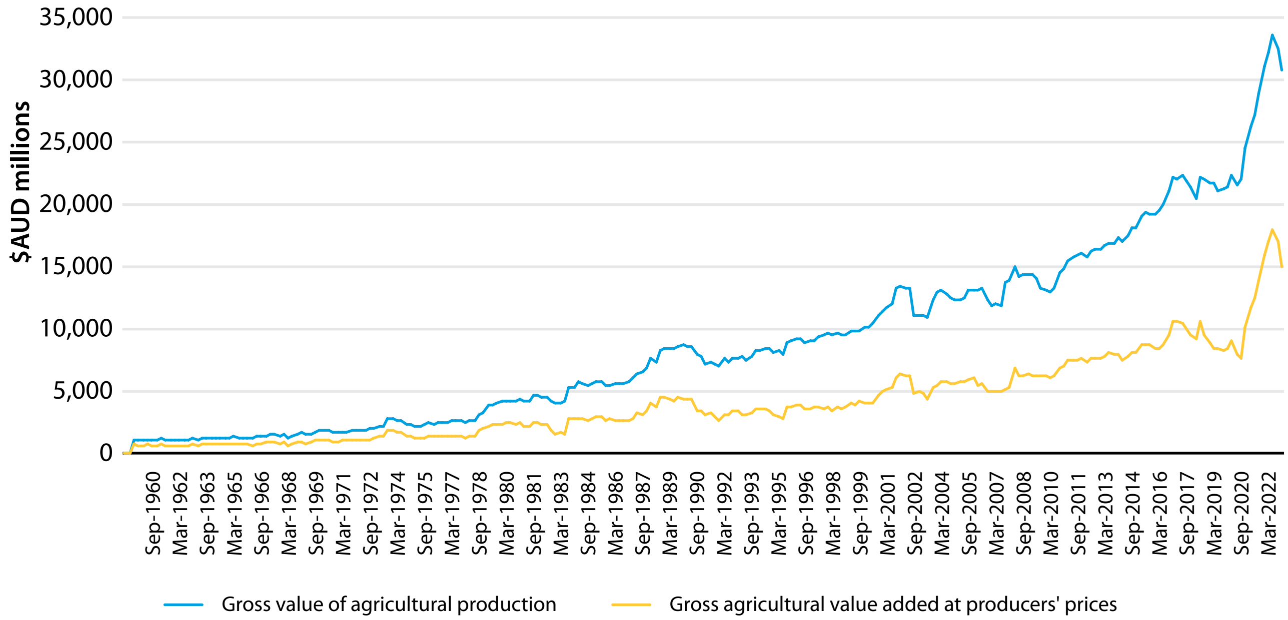
Source: ABS, National Accounts

It is no secret that Australian agriculture and export earnings have been going through boom times in recent years – the combination of strong seasons and high global prices have led to unprecedented conditions for most producers. This saw quarterly gross value of agricultural production jump almost 60 per cent in just two years and gross agricultural income (based on current prices) jumped a staggering 250 per cent at the same time before falling in recent quarters.

The impact of high prices and production is not only felt through profits at the producer level, but may also be felt through an increase in revenue to agricultural services and agricultural employees. Going hand in hand with strong global commodity prices has been a hefty increase in the cost of intermediate inputs and lack of availability of seasonal labour pushing up labour costs. So while intermediate input costs increased by 16 per cent in those two years between June 2020 and June 2022 and labour costs rose 13 per cent in the same time, not all of this increase was returned to regional employees or agricultural services companies – although many large agricultural services companies saw profits jump strongly in 2021.

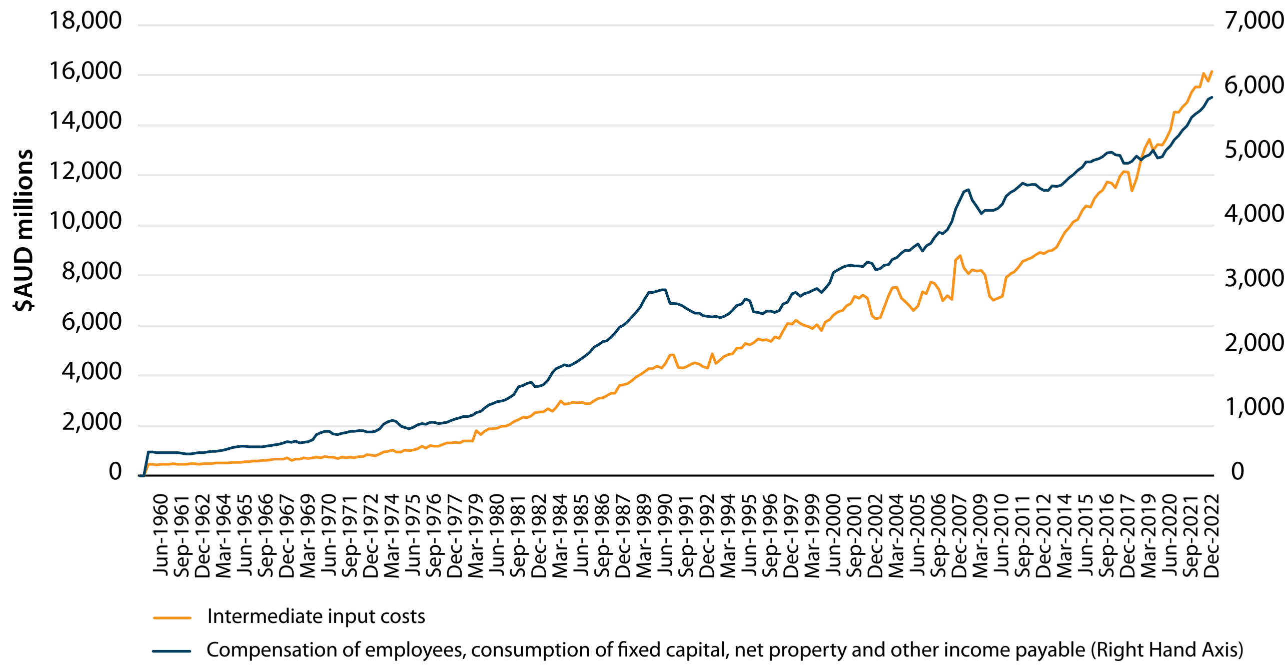
WHILE THE AGRICULTURE SECTOR WAS BOOMING AND PRODUCER RETURNS HAVE BEEN THE HIGHEST THEY HAVE BEEN IN RECENT MEMORY - THE IMPACT OF THE AGRICULTURAL BOOM ON AUSTRALIA'S RURAL AND REGIONAL ECONOMIES IS UNCLEAR.

AGRICULTURAL INCOME, QUARTERLY



Source: ABS, National Accounts

AGRICULTURAL COSTS, QUARTERLY



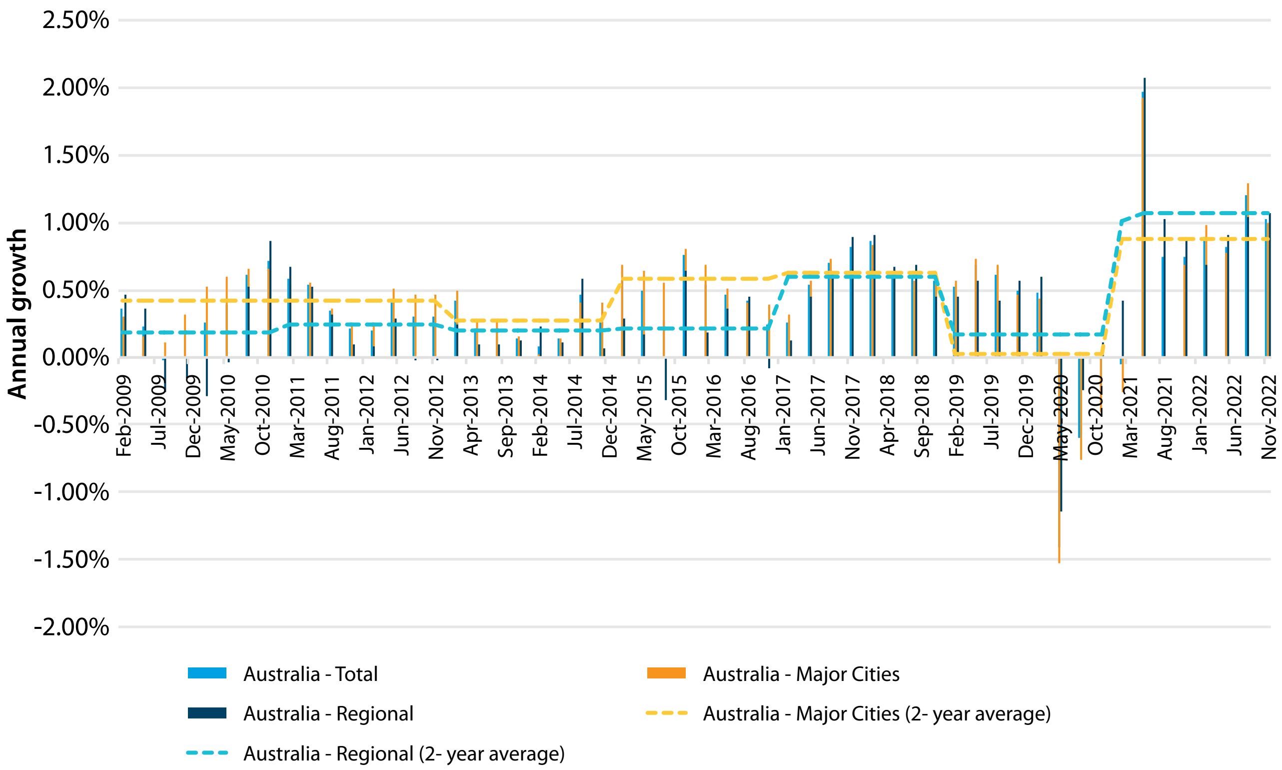
Source: ABS, National Accounts

While the Australian Bureau of Statistics does not break down Gross Domestic Product to a regional level, one of the best measures of regional economic growth and prosperity can be found in employment growth.

REGIONAL
EMPLOYMENT

With Covid lockdowns came the well documented shift of population to the regions, either in a work-from-home capacity or looking for new employment in the regions. This saw regional employment perform more strongly through the Covid period than employment in major cities, with the total number of employed in regional Australia growing an average of 0.48 per cent quarter-on-quarter for the two years from the beginning of Covid, compared with total employment in the major cities growing at an average of 0.18 per cent in the same time period. While the greatest falls in employment across the nation were felt in the initial May 2020 quarter, since that time, regional employment growth has outstripped employment growth in the major cities in all but two quarters.

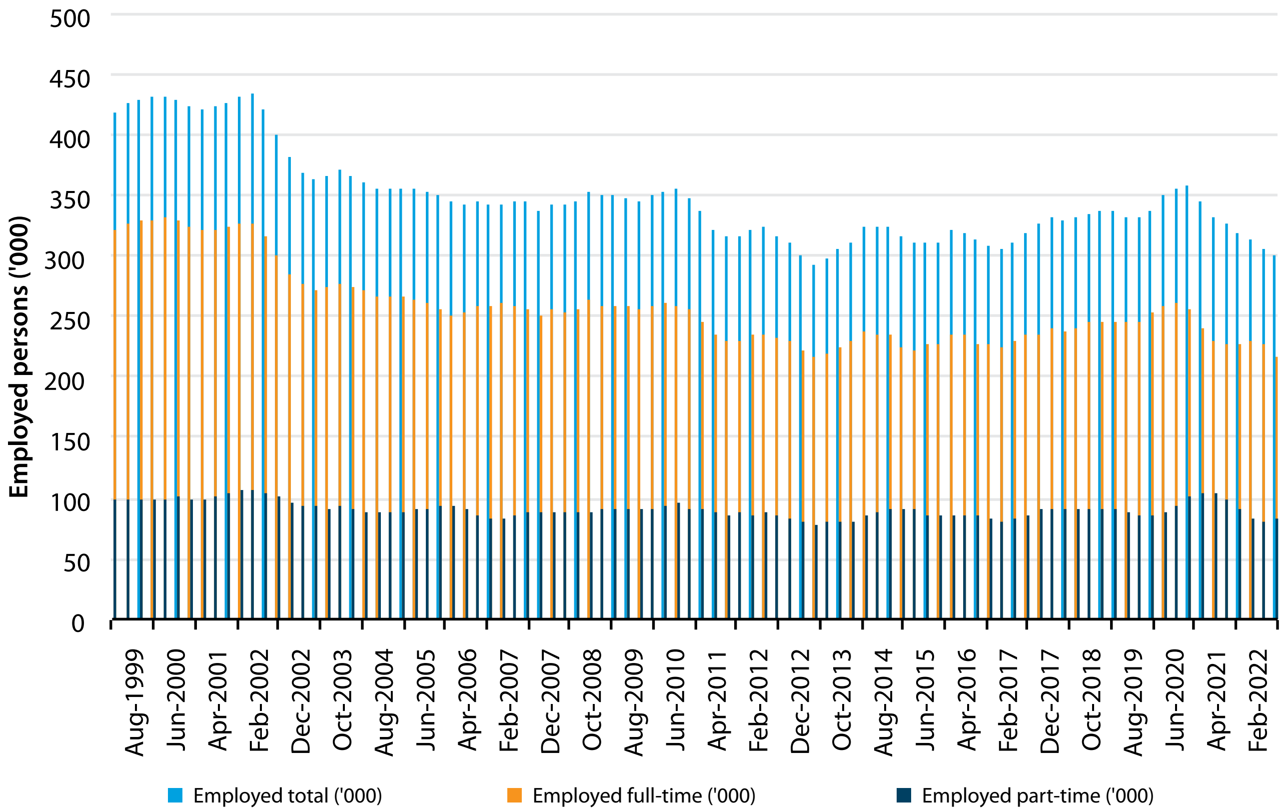
GROWTH IN TOTAL EMPLOYED PERSONS, BY AREA



Source: ABS, ANZ

It may be expected, given the commodity price and production boom, that the agriculture sector would have seen strong increases in employment in that time. However, with covid lockdowns limiting the availability of seasonal workers and workers in particular sectors such as shearing, a lack of available labour has been one of the sticking points for the agriculture sector over the past few years. Data shows that despite some solid growth in the total number of people employed in the agriculture, forestry and fisheries sector in early 2021 – and indeed an upward trend beginning in 2017 – the past two years have seen a solid decline in the number employed either full time or part time in the sector. What is not clear, however, is whether a reduction in full and part-time jobs in the agriculture sector is due to a lack of vacancies, or a lack of available labour. Given that anecdotally, many producers are struggling to find labour, whether seasonal workers, contract or piece-rate workers or permanent staff, it would appear that the decline in employment numbers in the agriculture sector may, at least in part, be attributable to a lack of availability.

TOTAL EMPLOYED PERSONS - AGRICULTURE, FORESTRY AND FISHERIES



Source: ABS, ANZ

Employment numbers alone are not the only indicator of the strength of the regional population – it is also worth looking at wage growth, particularly in comparison with wage growth across urban areas. It is most interesting to note the longer-term, wage growth in regional and remote areas is greater in all States and Territories for the five years between 2015 and 2020. The latest data in 2019-20, which covers the first wave of Covid downturns shows a mixture of wage results where wages in the regional areas of the denser populated, smaller States of Victoria and Tasmania, outstripped their capital cities, while wages in other capital cities exceeded their regional counterparts. While this data does not cover the full Covid period, it does show that the 'regional renewal' which emerged during Covid may have begun even prior to the pandemic.

MEDIAN WAGE GROWTH, TOTAL INCOME EARNERS

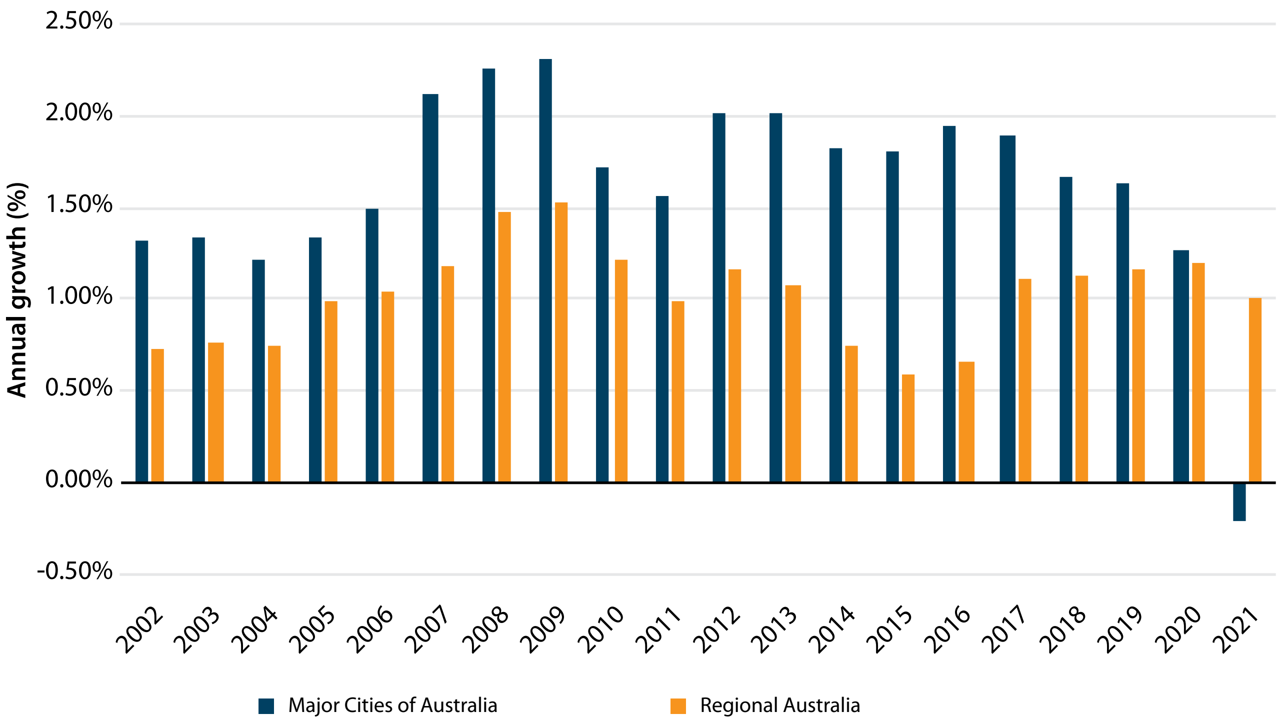
		Annual growth 2015-20	Annual growth 2019-20
New South Wales			
	Greater Sydney	2.40%	2.19%
	Rest of NSW	**2.62%**	**1.71%**
Victoria			
	Greater Melbourne	2.47%	1.88%
	Rest of Vic.	**3.50%**	**2.23%**
Queensland			
	Greater Brisbane	2.21%	1.98%
	Rest of Qld	**2.38%**	**1.73%**
South Australia			
	Greater Adelaide	2.34%	1.44%
	Rest of SA	**2.40%**	**0.40%**
Western Australia			
	Greater Perth	1.23%	2.18%
	Rest of WA	**1.50%**	**0.31%**
Tasmania			
	Greater Hobart	1.71%	0.54%
	Rest of Tas.	**2.84%**	**1.82%**
Northern Territory			
	Greater Darwin	0.64%	-0.03%
	Rest of NT	**1.52%**	**3.24%**
Australian Capital Territory		2.09%	2.60%

Source: ABS

REGIONAL POPULATION

Perhaps the most noteworthy impact of the Covid pandemic was the shift in population growth in the regions and away from major cities. In 2020-21, the population of Australia's major cities fell by 0.21 per cent, compared with an increase of 1 per cent, or 72,000 people, in regional Australia. Melbourne suffered the greatest falls in population, perhaps due to the protracted nature of lockdowns, while regional New South Wales and Queensland saw the strongest uptick in population growth. And while this was clearly below average for Australian major cities, the population growth in regional Australia was in line with the 10-year average. Over the longer-term, population growth in the major cities has grown at an average of 1.6 per cent per annum over 10 years and regional Australian growth has averaged 1 per cent per annum. Notably, however, there is also a longer-term decline in population in remote and very remote areas of Australia.

AUSTRALIAN POPULATION GROWTH BY AREA

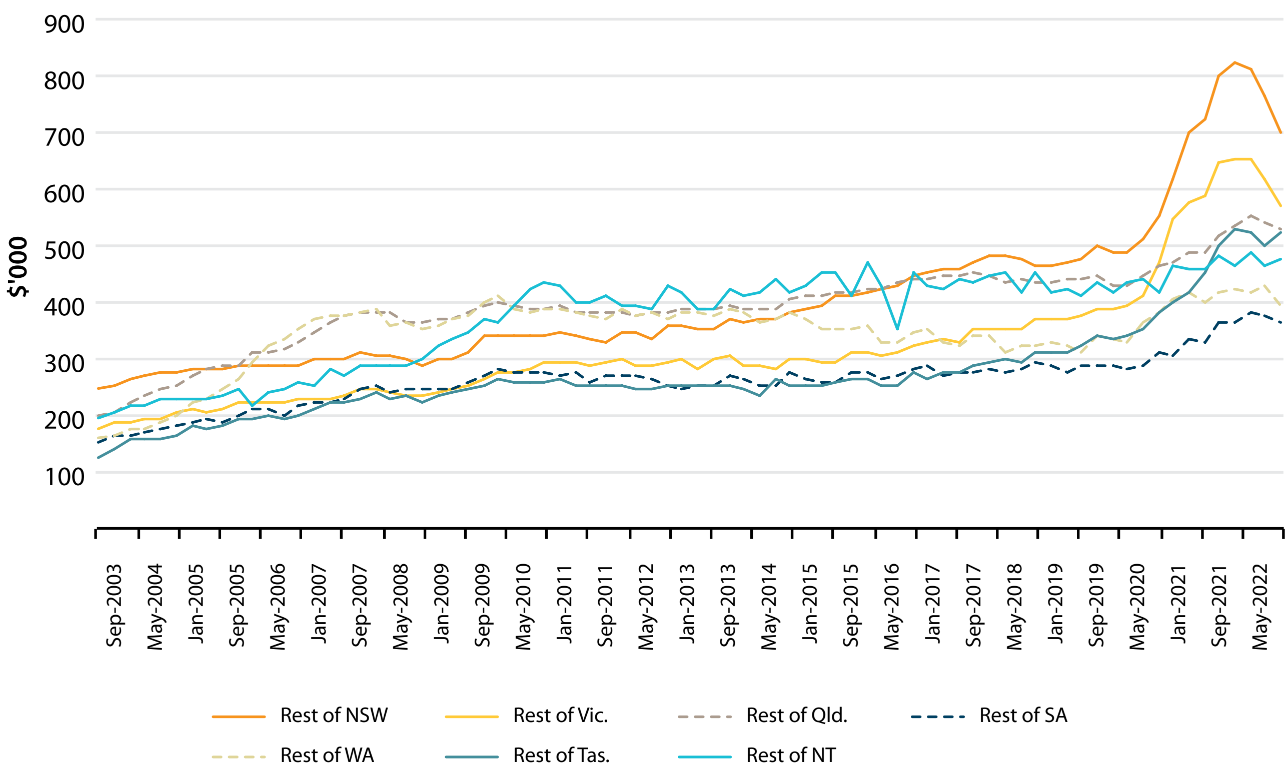


Source: ABS, ANZ

So is the trend to the regions a long-term shift, or simply a temporary response to Covid lockdowns? It's fairly clear that the increase in remote working and working-from-home will result in greater flexibility and attractiveness for people to work in regional Australia, however as international migration resumes, there will be a greater pick-up in population growth in the major cities. Perhaps one of the greatest factors impeding long-term growth in the regions is the perception of a lack of services in many parts of regional Australia, whether that be telecommunications, health, education or transport. This trend is held up in the ten-year trend where population growth in regional New South Wales and Victoria is almost equal to that of Sydney and Melbourne, while the population growth in the regional areas of larger, sparser States such as Queensland is far less than that of Brisbane. It's also important to note that regional population growth is focussed very heavily on growth in inner regional areas – not in rural or remote areas. The conclusion can be drawn that most regional population growth can be seen in major regional cities, and those within a reasonable commute to capital cities. Expanding this growth to rural and remote areas is likely to require significant additional investment in transport and other services infrastructure, to maintain the service level seen in major cities and now increasingly in large regional cities.

While the regional population boom has been put primarily down to Covid lockdowns, the long-term trend appears to be for greater population growth in those regional centres within travelling distance of major cities and with a certain level of service delivery. As a result, house prices across regional areas have also boomed – particularly during the Covid period – and although house prices have dropped in recent months, they remain strongly above pre-Covid prices. However, the performance of regional house prices is mixed between States with regional house prices in New South Wales, Victoria and Tasmania outperforming their respective capital city house price increases compared to pre-Covid prices. In all other States and Territories, major city house prices have performed more strongly than the regions over the Covid period. That trend, while exacerbated by Covid, is also replicated over the longer-term with regional Victorian house prices growing at a faster pace than Melbourne while prices in regional New South Wales and Tasmania also grew almost in line with their capital cities. In all other States and Territories, regional house prices have significantly underperformed capital city house prices in the past 10 years.

MEDIAN PRICE OF AN ESTABLISHED HOUSE



Source: ABS, ANZ

The Covid pandemic has highlighted the strength of Australia's regional and rural areas at a time where our major cities have had a significant setback. It has also revealed a series of trends towards growing wages, employment, population and house prices across many regional areas. However this cannot be claimed to be a nation-wide trend – with the regional boom over both Covid and in the longer-term being concentrated in the larger and denser populated States. Regardless, it does reveal both a willingness and desire for people to move to, or stay in, the regions – in contrast to the common belief that regional Australia was suffering from 'brain drain'. The question is how to capitalise on these opportunities and ensure that all regions can benefit.

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