

Regional populations are growing... and greying

16 July 2007

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ANZ Rural and Regional Reports focus on economic issues of direct relevance to rural and regional Australia. This instalment considers regional demographic trends, and in particular, the nature of recent population growth and the age structure of the population.

Key points

- Population growth in regional Australia has accelerated in recent years, and in aggregate, now exceeds that of the metropolitan centres.
- Population growth in regional coastal areas remains strong, but much of the acceleration in overall regional population growth reflects stronger growth in inland regions.
- Regional population growth has been driven by a net inflow of people from the capital cities and other metropolitan areas, and to a lesser extent, natural increase (the excess of births over deaths).
- All of the growth in regional populations in the past five years is accounted for by older age cohorts – those aged 40 and above. On net, the regions continue to lose younger people to metropolitan centres.
- Regional population growth varies significantly by state, with Western Australia and Queensland at the upper end and New South Wales at the lower end. However, the rate of regional population growth has accelerated in most states.
- Population ageing will be more marked in regional Australia than in the broader national economy. The old-age dependency ratio – the ratio of the number of people aged 65 years and older to the number of people of traditional working age between 15 and 64 – is set to rise from around 23% currently to over 65% by 2047. This means that in 40 years time, there will be just 1½ people of working age for each person aged 65 and older. This compares with 4¼ people now.
- Planning for population ageing has commenced at a national level via the Federal Government's *Intergenerational Report*. It identifies policies aimed at raising productivity and labour force participation amongst all age cohorts as crucial to addressing the effects of demographic change. However, more needs to be done at a local level to ensure the ongoing viability of regional economies as growth in its labour force slows, and to ensure adequate infrastructure and services to accommodate its populations.

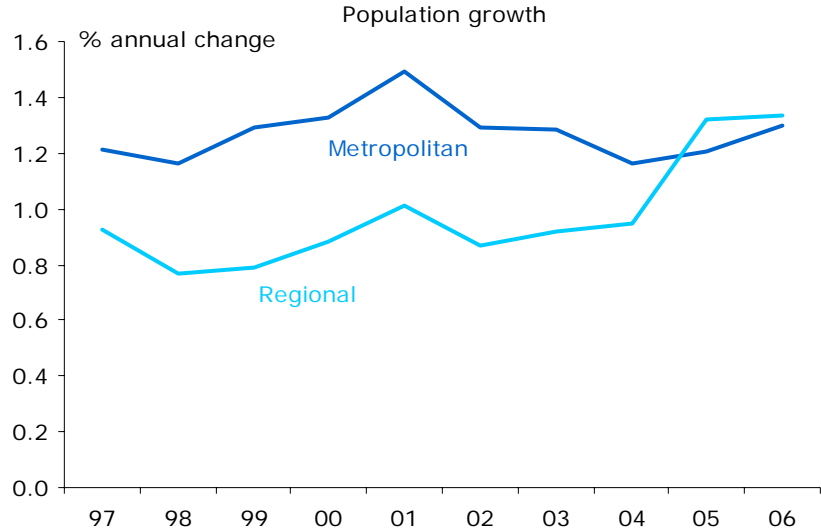
Regional population trends

Before proceeding, it is useful to clarify the distinction between 'metropolitan' and 'regional' Australia. Since there is no set definition, we define metropolitan areas to include the capital cities and urban centres with populations greater than 150,000 people. Regional Australia then encompasses areas outside of this. Where relevant it is also possible to further dissect regional areas into coastal and inland regions, which we do here for New South Wales, Victoria and Queensland. For Western Australia, a distinction is drawn between mining and non-mining regions.

Regional population growth now exceeds that of metropolitan areas!

Around one-third of Australians reside in regional areas. Over the past 10 years, population growth in regional Australia has typically been below that experienced in capital cities and major urban centres. Since 2004, however, regional population growth has accelerated from an annual rate of 0.9% to around 1.3%, to actually exceed population growth in the metropolitan centres.

Population growth in regional Australia has picked up to be above that of metropolitan centres

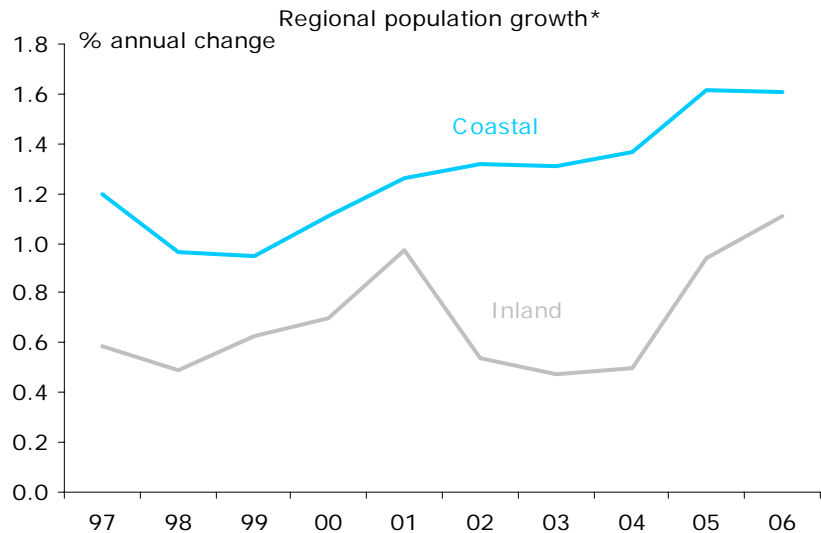


Sources: Australian Bureau of Statistics and Economics@ANZ

The acceleration in regional population growth has been in both coastal and inland areas

Contrary to popular belief, the recent acceleration in regional population growth is not merely confined to coastal areas.¹ Although regional coastal population growth remains strong at around 1.6% per annum, regional inland population growth has doubled in the past few years, to 1.1% in 2006, the fastest rate in more than a decade.

Both coastal and inland regions are experiencing their fastest rate of growth in a decade



* Note the coastal-inland regional split is only for New South Wales, Victoria and Queensland.

Sources: Australian Bureau of Statistics and Economics@ANZ

Regional population growth has been largely sourced from the metropolitan centres...

Across regional Australia, population growth has primarily been driven by net regional migration – people moving into regional Australia from capital cities and metropolitan areas. This trend accounted for a little over half of regional population growth in 2005. In addition, net natural increase (the excess of births over deaths) contributed over a third of the increase in Australia's regional

¹ Note that the distinction between 'coastal' and 'inland' regions is made only in New South Wales, Victoria and Queensland.

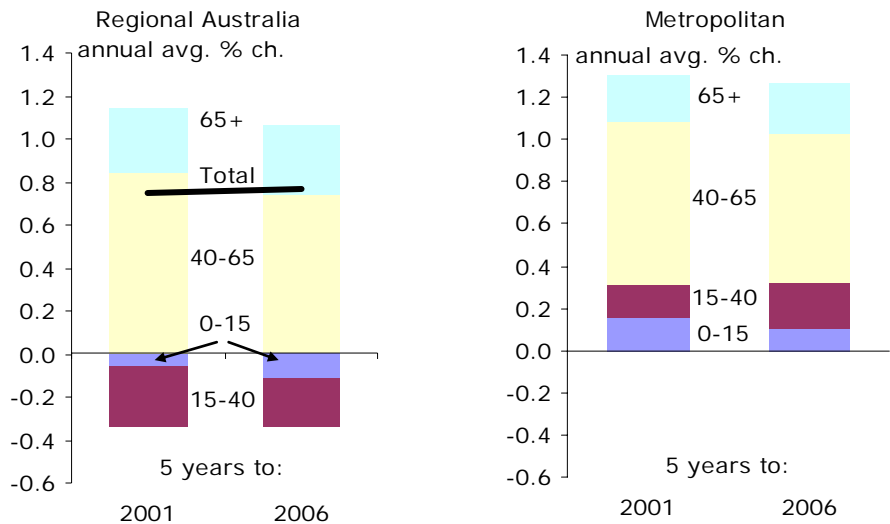
population in 2005, while net overseas migration has contributed less than 10% of the increase, with most migrants settling first in capital cities rather than regional Australia.

There are several reasons why people might move to regional Australia. The higher cost of living in capital cities, and in particular housing costs, may be one factor. A change to a non-urban lifestyle may be another. Similarly, the growing number of aged people retiring in coastal areas has been documented.² In addition, improvements in transport and communications infrastructure has helped reduced the isolation of regional communities.

Overall, regional Australia gains population from capital cities and metropolitan areas, but it loses out in one important respect. Younger people, whether for education or employment, typically leave regional Australia for larger cities. Combined with the ageing of the population, this has resulted in the number of people aged under-40 declining over the past decade in regional Australia. Instead, regional population growth has been driven by an increasingly older demographic.

This older demographic can be decomposed into those aged 40 to 65, and those aged 65+. Over the next two decades we can expect many in the 40 to 65 age cohort to retire or approach retirement. With this demographic accounting for most of the population growth in regional Australia, regional communities will be hit particularly hard by the overall ageing of Australia's population.

Population growth in regional Australia is driven by an older demographic



Sources: Australian Bureau of Statistics and Economics@ANZ

Most states are experiencing an acceleration in regional population growth

By state, substantial variation in the rate of population growth is evident with Queensland and Western Australia growing the fastest and New South Wales, South Australia and Tasmania growing the slowest. Despite this variation, the acceleration in regional population growth is a common theme across most states.

After falling from 1.2% growth in 2001 to 0.5% growth in 2004, regional population growth in New South Wales has since picked up and is currently around 1% per annum. This pick up has been particularly marked for inland regional New South Wales which is now growing at 0.8% per annum after experiencing population decline in 2003 and 2004.

In contrast to New South Wales, Victoria's population growth in inland regions has been close to, and in some years exceeded that of coastal regions for much

...but this growth reflects older people, with younger people, in net terms, continuing to leave for the cities

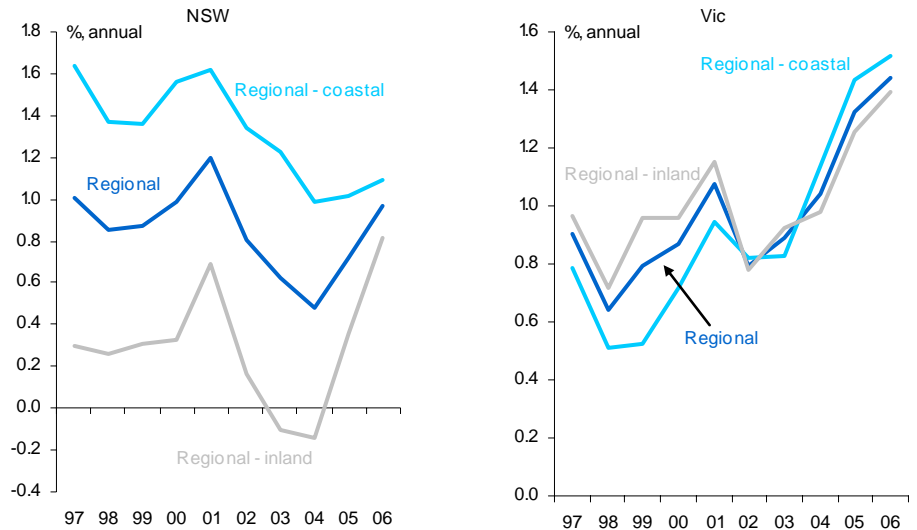
Population growth in regional New South Wales has begun to rebound...

...while growth in Victoria remains on an upward trend

² See, for example, ABS *Australian Demographic Trends, 1997* (Cat. No. 3102.0).

of the past decade. More broadly, Victoria's regional population growth has trended upwards over the past 5 years.

Inland NSW has struggled to maintain its population while Victoria's regions have fared better



Sources: Australian Bureau of Statistics and Economics@ANZ

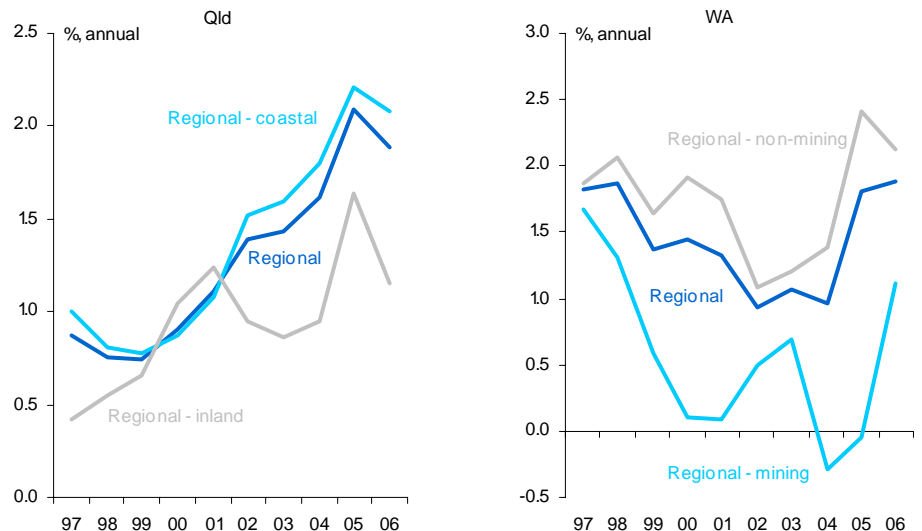
Queensland's regional population growth continues to be driven by coastal areas...

...while Western Australia's has, surprisingly, been driven by non-mining towns

Queensland's population has swelled by an average of 1.9% per annum over the past decade, the fastest of all the states and territories. This has primarily been a coastal story although Queensland's inland regional population growth remains strong relative to other states.

Western Australia's regional population has also grown strongly, averaging 1.4% growth per annum over the past decade. Curiously however, the data show that the increase has been driven by non-mining regions. In 2004 and 2005, population growth in Western Australia's mining regions actually declined. This may reflect the nature of mining sites which contain a large number of temporary workers rather than permanent inhabitants.

Impressive population growth in regional Queensland and Western Australia



Sources: Australian Bureau of Statistics and Economics@ANZ

Population growth in Tasmania – both metropolitan and regional – continues to be curtailed by a net outflow of residents to mainland Australia. That said, regional population growth has improved. After declining by 0.3% per annum on average from 1996 to 2001, Tasmania's regional population growth has since picked up to average 0.6% per annum over the past 5 years. Similarly, population growth in South Australia's regions has averaged 0.6% per annum over the past 5 years, compared with 0.4% in the 5 years to 2001.

Little can be done to prevent the population from ageing

The best response to ensure continued growth in living standards is to raise productivity and labour force participation

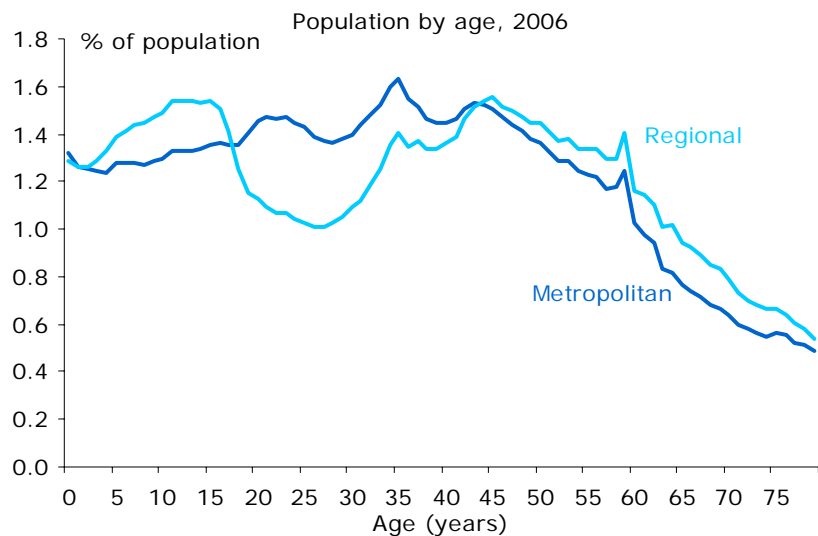
Regional Australia is ageing

Australia's population, like that of other industrialised economies, is ageing, and to a large extent, there is little that can be done to prevent it. It is a natural outturn of declining fertility rates (which first became apparent in the 1960s) and increasing life expectancy. And while higher levels of net migration will help at the margin, it won't be sufficient to prevent the effect of the accumulation of these demographic changes.

At a national level, planning for population ageing is relatively well advanced. The Government now releases an *Intergenerational Report* every five years to assess the long term sustainability of Government policy in light of demographic change.³ The message is clearly gaining traction, with broad community awareness of the importance of increasing productivity and labour force participation to future economic growth. This has spurred a raft of policy initiatives in recent years aimed at inducing more people into the labour force and keeping them in it for longer, including, for example, successive rounds of income tax cuts, superannuation changes and welfare reform.

But while the macroeconomic implications of population ageing are now well understood, regional impacts have been less clearly articulated. The fact is that population ageing will be more marked in regional Australia than in the broader national economy. In part, this reflects regional Australia's older starting point. As at 2006, around 27% of the population in regional Australia was aged 55 years or older. This compares with a rate of 23½% in metropolitan areas. In addition regional Australia has just 39% of its population in the prime young working age group of 15 to 45 year compared with 45% in metropolitan areas.

Regional Australia is older than the metropolitan centres



Sources: Australian Bureau of Statistics and Economics@ANZ

These age profiles are the result of the trend, described above, for older people to move from the cities to the regions and younger people to move from the regions to the cities. If this trend continues, as seems likely, it will further exacerbate what is already a steep age profile confronting regional Australia.

Another way to analyse this issue is to look at old-age dependency ratios – that is, the ratio of the number of people aged 65 years and above to the number of people of traditional working age between 15 and 64. It is intended to provide a summary measure of the ability of an economy to provide for its older citizens. In 2006, this ratio for regional Australia was 23.1%, up from 21.2% in 2001 and 19.7% in 1996. In other words, there are now around 4¼ people of working age for each person aged 65 and older in regional Australia, down from over 5 people a decade ago.

There are currently 4¼ people of working age for each person aged 65 and older in regional Australia

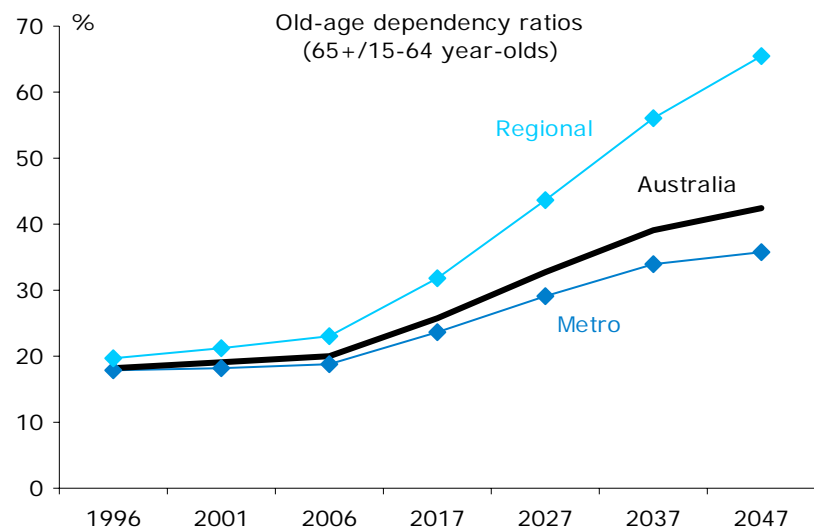
³ The second Intergenerational Report was released on 2 April 2007, and can be accessed online at <http://www.treasury.gov.au/igr/IGR2007.asp>.

By 2047, there will be only 1½ people of working age for each person aged 65 and older in regional Australia

The old-age dependency ratios for regional Australia compare less favourably with those for metropolitan areas and for Australia as a whole. In 2006, the old-age dependency ratio was 18.8% for the metropolitan regions and 19.9% for Australia as a whole. This equates to around 5¼ working age people for each older person in metropolitan Australia and 5 for Australia as a whole. Again, these dependency ratios have increased since 1996, but not nearly as sharply as in regional Australia.

As the population ages, dependency ratios will continue to increase, and indeed, probably more sharply than they have to date. Overall the Government in its latest *Intergenerational Report* expects the old-age dependency ratio to rise from around 20% currently, to over 42% by 2007. This means there will be just 2.4 people of working age to support each person aged 65 and over in 40 years. Applying historical trends to the proportion of the population in metropolitan and regional areas by age cohort, we estimate that the old-age dependency ratio in regional Australia will rise from its current level of around 23% to over 65% in 2047. That is, on current trends, there will be only 1½ people of working age for each person aged 65 and older in regional Australia. While the situation in metropolitan areas will deteriorate, it is unlikely to be as pronounced as for the regions, with the old-age dependency ratio increasing from 18.8% currently, to over 35% by 2047.

The burden of population ageing will be biggest in regional Australia



Source: Australian Bureau of Statistics and Economics@ANZ

Concluding remarks

These projections raise serious questions for regional Australia, including: "Where will future economic growth come from?"; "Do the regions have the necessary infrastructure to accommodate the needs of an older population?" and; "How will the regions be able to provide for an increasingly aged population?"

While the full effects of population ageing will take decades to materialise, the sheer magnitude of the challenge suggests early, cautious and considered planning is needed now. Although such planning is already underway at a national level, our analysis suggests that regional Australia faces its own unique challenges, implying the need for local strategies to complement national and state policies. Policies to attract health professionals and retain younger people are two obvious areas where planning at a regional or local level may prove fruitful.

Much remains to be done to ensure a smooth transition for regional economies as its populations age. Coming to terms with the magnitude and dimensions of the issue are a good first step.

Early, cautious and considered planning is required to address the profound implications of population ageing

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