

Australian population booms

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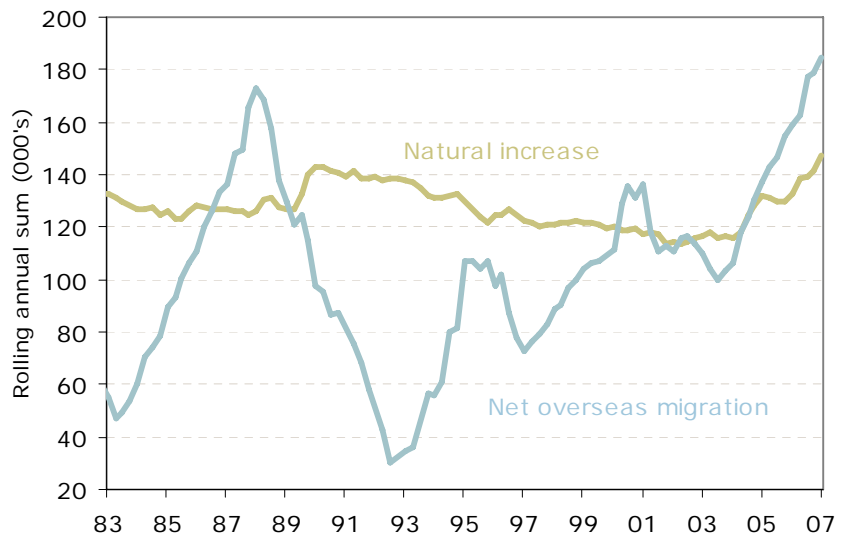
- The **Australian population has expanded by 1.6% or 331,000 people in the year to December 2007**. This is the largest annual additional to the population since the early 1970's.
- A natural increase of 147,400 people contributed 44% to the total increase in population in 2007. This was driven by a 6.2% rise in the number of births which reached over 285,000 in the year, (a record in the current ABS population methodology). This has continued a marked upswing in numbers of births since the introduction of government incentives.
- Net overseas migration inflows also continued to accelerate. Adding a record 184,400 people to the resident population in 2007.
- The faster growing 'resource' economies continue to pull in people with Queensland, Western Australia and the Northern Territory all enjoying relatively fast rates of population growth.

Key Figures

	Population (000's)	Annual change (000's)	Annual change (%)
New South Wales	6,927.0	72.9	1.1
Victoria	5,246.1	82.4	1.6
Queensland	4,228.3	96.9	2.3
South Australia	1,591.9	16.5	1.0
Western Australia	2,130.8	49.5	2.4
Tasmania	495.8	4.1	0.8
Northern Territory	217.6	5.0	2.4
Australian Capital Territory	340.8	4.5	1.3
Australia	21 180.6	331.9	1.6

Source: ABS

Figure 1: 'Home grown' and 'imported'



Source: ABS

Population boom feeds economy, but puts pressure on housing

Overseas migration to Australia is booming...

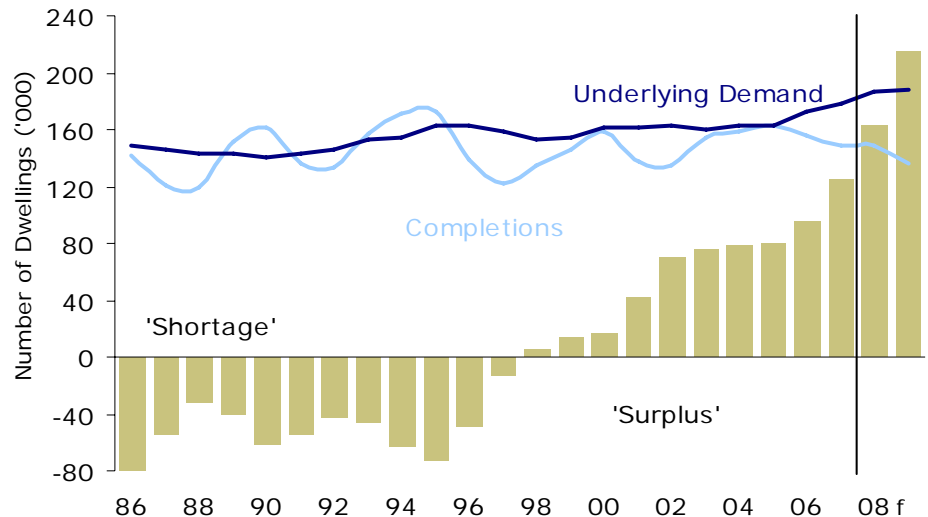
The Australian population is booming, feeding an Australian economy and in particular a labour market that has been crying out for additional workers. The faster growing economies of QLD and WA have been attracting the greatest numbers of net interstate migrants, with the biggest loser in this process being NSW. NSW still attracts the most number of net overseas migrants, yet Victoria has caught up fast, with the number of overseas migrants heading there increasing significantly in recent years. Western Australia has also been able to increase numbers of overseas migrants with strong demand from tight domestic labour markets driving this trend. It is expected that the record national levels of migration will continue in the next year with the Rudd government foreshadowing the need for an additional 31,000 skilled migrants to alleviate crippling skills shortages in the economy.

...and the economy needs more

All this means only the one thing for the residential housing market – the perpetuation of a significant shortage of dwellings for years to come. Strong population growth is one of the key drivers of the underlying demand for housing. However, the supply of additional housing is being constrained by the RBA's need to combat inflation with higher interest rates.

However, population growth is adding to strong demand for housing

Figure 2: Australian dwelling cycle



Source: ABS, ANZ

...and the imbalance in the market should help support house prices

As a result, Australia is expected to have a shortage in excess of 200,000 dwellings in 2009. This unprecedented imbalance in the market is one of the fundamental differences between Australia and many other developed economies in which house prices are now falling. Added to this is the increasingly stark difference in general economic performance, not to mention household disposable income growth. We anticipate that the tightness in the housing market will continue to underpin Australian aggregate house prices going forward. That being said, there will most likely be a slowing of house price growth over the next 12-months. Especially when compared with the frenetic pace of median price rises seen throughout 2007 in many capital cities. Further, we can not rule out the possibility of some marginal quarterly falls in some states as higher interest rates continue to bite. Despite this, we do not expect any significant correction in prices either now or in the coming years.

Addressing one problem is fuelling another...

The population data highlights what will be an ongoing conundrum. We clearly need ongoing migration in order to alleviate capacity constraints and skill shortages in the economy. However, given the current shortage of housing stock, alleviating constraints in one sector of the economy is serving to exacerbate pressures in another.



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