

Trends

August 2018
A bulletin of
economic developments
in South Australia

Is bigger better when it comes to population?

South Australia's focus must be on attracting skilled workers



Chief Executive's Foreword

SA must welcome more skilled workers



Welcome to the latest edition of BankSA's economic bulletin, *Trends*, compiled in conjunction with Deloitte Access Economics.

In this edition, we look at the population debate in South Australia, including the importance of attracting more skilled workers to the state and how our living standards are affected by changes in population.

Population growth has long been a contentious topic in South Australia, especially over the past decade during which time the state's population growth rate has steadily declined.

This edition of *Trends* considers the pros and cons of increasing resident numbers in South Australia, with a focus on how living standards would be impacted if we welcomed more skilled workers from interstate and overseas.

South Australia's rate of population growth is slower than any other state in the country. We're also ageing faster than any mainland state.

In fact, latest figures from the Australian Bureau of Statistics released in late April show that South Australia's growth rate of 0.6% lags behind all other states, including Victoria's 2.3% and the national growth rate of 1.6%.

The sluggish result for South Australia immediately sparked renewed concern among local business groups, while the state's new Premier Steven Marshall also weighed in, labelling the low figures "completely unacceptable" and that "a growing population is integral to the conversation of how we bolster the South Australian economy".

"Much more must be done to stop the exodus of young South Australians pursuing job opportunities interstate and overseas," said Premier Marshall at the time.

"One of the highest priorities of my government will be addressing low population growth in Adelaide and the regions. Driving a population growth agenda is integral to creating more jobs here in South Australia."

I agree that strong population growth

is vital for a strong economy and that we should be doing all we can to attract more people to live and work in South Australia. But we need to be smart.

As highlighted in this *Trends* report, population growth for its own sake isn't necessarily the best approach, and instead more targeted growth is required.

That is, we need to attract and retain more skilled workers from around the country, and indeed, from around the world. This also includes reversing the 'brain drain' in South Australia and giving our own talented young people every opportunity to stay here to live and work.

To do this, South Australian businesses must be willing – and empowered – to invest more in higher growth industries, while as a state we need to make a more concerted and sustained effort to better position Adelaide and South Australia as

an appealing place for young people to carve out their careers.

We need to keep promoting our first-class education system, and ensure it is skilling our young people for roles of the future. And then we must provide an environment for our best and brightest to viably stay and set up businesses right here. This will both grow our own and further attract skilled population.

There is also an interesting analysis in this *Trends* report about the link between population growth and living standards. It notes that participation and productivity are key drivers of living standards, so with greater numbers of highly skilled workers – who have proven to be more productive – it stands to reason that greater living standards will follow.

“At the end of the day, we need to grow our economy or risk stagnation and irrelevance as a state. And while there are no magic bullets, as *Trends* points out, increasing our population through skilled migration would certainly be a great start.”

When looking at the research and outcomes in other cities, the positive impact that skilled migrants have on local economies is difficult to dispute.

For example, skilled migrants are more likely to be young adults ready to enter the workforce, meaning governments provide relatively less to subsidise their education and health care while young. In fact, some 83% of incoming migrants to Australia are aged under 40, with more than two-thirds of the 190,000 migrants who arrived in our country as part of the Australian Migration Program in 2015-16

coming here under the skilled migration category.

It has also been shown that migrants to Australia are often more skilled than the existing workforce, which again leads to greater productivity, and in turn, greater living standards overall.

So as this *Trends* report emphasises, the economic arguments in favour of expanding our skilled workforce are not just to generate a bigger population for the sake of being bigger, but because more skilled workers lead to a stronger economy and higher living standards through increased workforce participation and productivity.

Ultimately, more skilled people means more jobs, not less.

For example, skilled migrants from interstate and overseas all need homes to live in and places to shop, which helps generate new jobs in construction, retail, hospitality and a range of other industries.

With this in mind, it's time that South Australia pursues a bolder migration program based on increasing skilled migration.

We should be looking to entice more young people from interstate, with our relative housing affordability compared to Victoria and New South Wales an obvious starting point, along with Adelaide's regular high ranking in liveability surveys comparing the world's top cities.

At the end of the day, we need to grow our economy or risk stagnation and irrelevance as a state. And while there are no magic bullets, as *Trends* points out, increasing our population through skilled migration would certainly be a great start.



Nick Reade
Chief Executive, BankSA

1,723,548

South Australia's current population (Australian Bureau of Statistics, April 2018).

40

The median age in South Australia, which is two years older than the median age nationally.

83%

The percentage of incoming migrants to Australia who are aged under 40.



Is bigger better when it comes to population?

“Our first requirement is additional population.”

- Arthur Calwell, Minister for Immigration, 1945

“Have one for Mum, one for Dad and one for the country.”

- Peter Costello, Treasurer, 2002

“I’m in favour of immigration. It’s the rate of immigration that’s the problem.” - Tony Abbott, ex-Prime Minister, 2018

Population growth – and immigration levels in particular – has emerged as a controversial topic in both Australia and around the world in recent years.

And population growth is a hot topic in South Australia too, with the state’s population growth having lagged behind Australia as a whole for more than half a century. In fact, local population growth has been broadly easing for the better

part of a decade, leaving South Australia with the fastest ageing population of any mainland state.

This edition of *Trends* goes behind the media headlines to:

- Think about what’s best for South Australia;
- Analyse the data; and
- Plot a path forward.

In summary, bigger isn’t necessarily better: population growth for its own sake isn’t necessarily a smart play.

But there are some joys that come with being bigger. And South Australia would indeed benefit from more skilled workers, whether they are coming from the rest of the nation and the world, or whether the state gets better at hanging on to some of the young people who currently head off

elsewhere to carve out their careers.

Two obvious things stand out:

- First, relative to Australia as a whole, South Australia still relies on more 'lower growth' industries. It will be important to see business willing to invest in industries with greater growth potential – the more investment that business makes, the more South Australia will be an attractive destination.
- Second, South Australia needs to not only rank highly on global liveability indices, it also needs to go on the front foot in making the state attractive to young workers.

“In summary, bigger isn't necessarily better: population growth for its own sake isn't necessarily a smart play.”

There are no magic bullets here, but these two measures could provide welcome momentum to South Australia's population growth and, through that, to greater prosperity.

What's the problem?

Many commentators assume that there's a problem here that needs fixing.

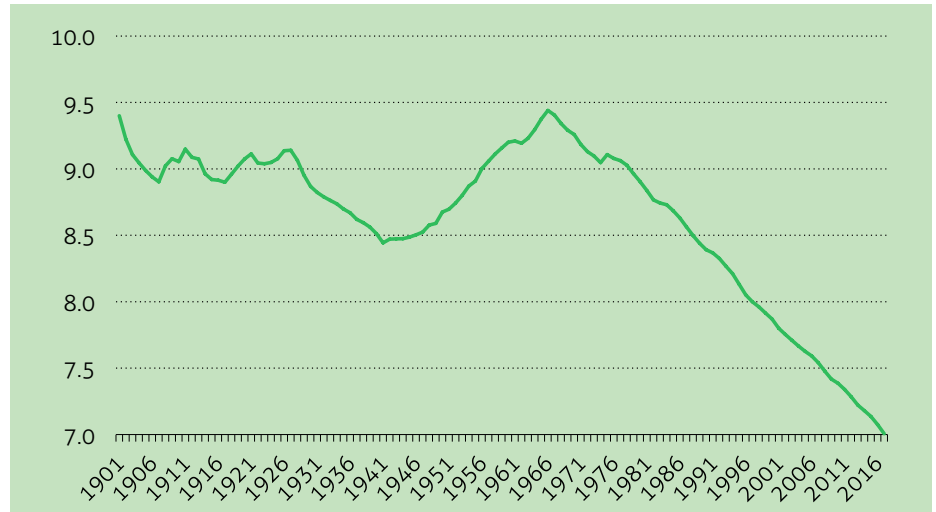
After all, South Australia's share of Australia's population peaked in 1966.

And although there have been many ups and downs over time, there's broadly been a trend downswing in the pace of population growth in South Australia since a peak in 2009 (see Chart 2).

That downtrend has been evident for the better part of a decade now.

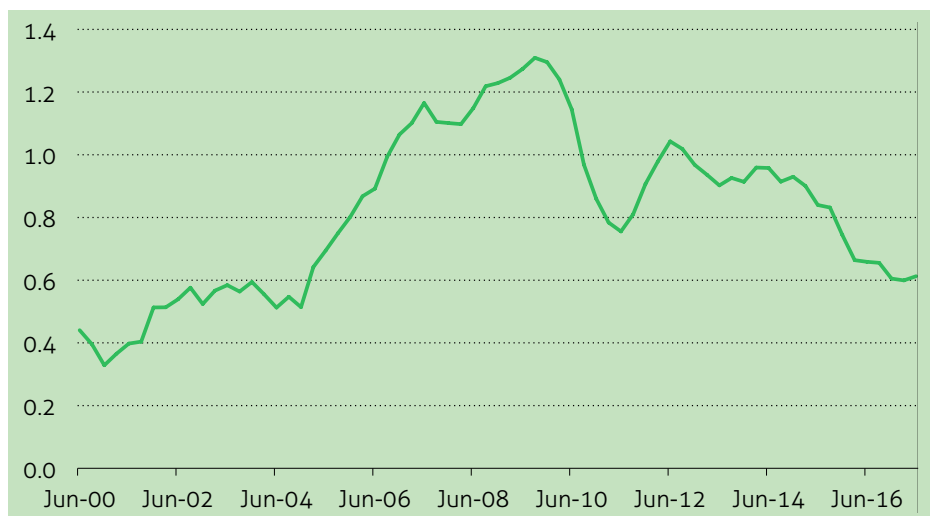
This weakening in population momentum in South Australia has a range of knock-on effects. For example, it is bad news for those sectors – such as construction – that

CHART 1
SOUTH AUSTRALIA'S SHARE OF NATIONAL POPULATION - %



Source: Australian Bureau of Statistics.

CHART 2
POPULATION GROWTH - % CHANGE ON 12 MONTHS EARLIER



Source: Australian Bureau of Statistics.

sell into the pace of growth.

And it cements South Australia's position as having a rapidly ageing population relative to other states – along with the challenges that ageing brings to local businesses, councils and the State Government.

Accordingly, the dependency ratio – effectively, the share of the total population that's either too young or too old to work – is set to climb notably. As Chart 3 shows, although the wider

Australian population is also ageing, it's projected to happen faster in South Australia than it is in the nation as a whole.

As a result, the relative shrinkage of the state's share of Australia's population gradually translates into a matching reduction of our political power within the Commonwealth of Australia (and hence a shrinking say in the running of Australia). Chart 4 traces the falling number of Federal seats in South

Australia, with the next Federal election – expected any time from late 2018 to mid-2019 – to see the state lose yet another seat in the Federal House of Representatives.

At the same time, there are fewer job opportunities for young South Australians. By definition, younger workers – and older ones – have more options when the pie of available jobs is growing faster.

“But that begs the true question – the one that lies at the heart of this issue: just how fast should South Australia’s population be growing?”

To be clear though, it isn’t that there have been no jobs. As Chart 5 illustrates, there are comfortably more jobs in South Australia today than there were a decade ago. It is just that other states have an advantage on that front.

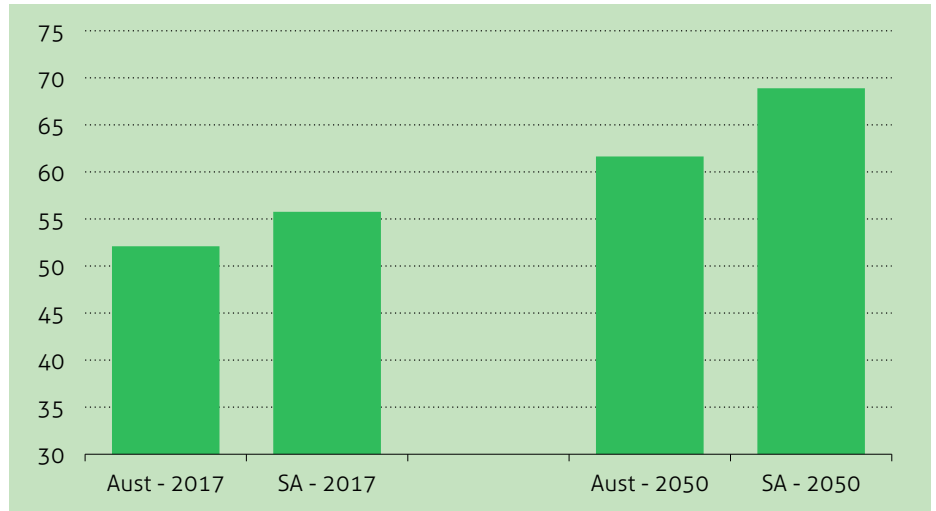
Though that’s not as bad as it may seem. In fact, the main reason why most other states have created jobs faster than South Australia is simply because their populations have been growing faster.

That said, and as Chart 6 shows, South Australia’s standing is relatively modest on the job creation front even accounting for that. For every 100 extra people in South Australia over the past decade, 40 have obtained jobs, which compares to the 49 jobs for every extra 100 people across the nation as a whole. Note that this ratio is never as high as 100, as many people are either too young or too old to be working.

So South Australia has a problem ... or does it?

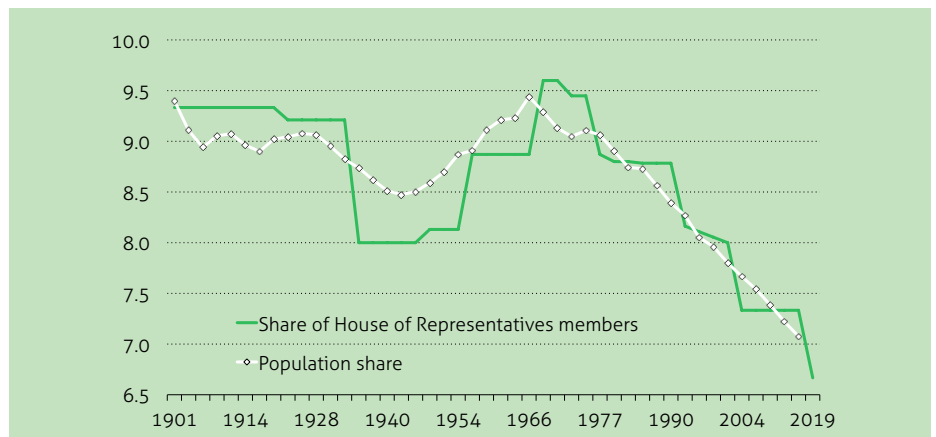
While South Australia’s population growth

CHART 3
DEPENDENCY RATIOS - SIZE OF 0-14 AND 65+ GROUP RELATIVE TO POPULATION AGED 15-64 (%)



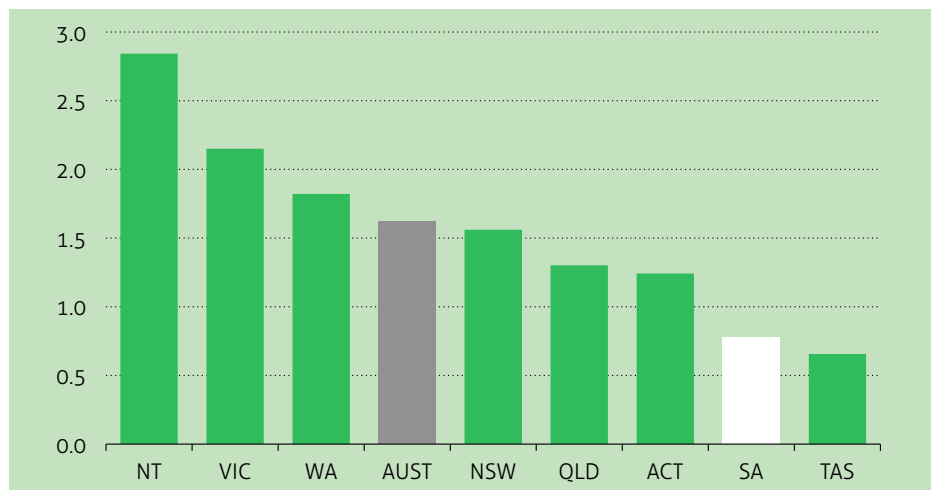
Source: Australian Bureau of Statistics, Deloitte Access Economics.

CHART 4
SOUTH AUSTRALIA'S POPULATION AND POLITICAL REPRESENTATION - SHARE OF NATIONAL (%)



Source: Australian Bureau of Statistics, Western Australian Electoral Commission database.

CHART 5
JOB GROWTH BY STATE - ANNUAL % CHANGE 2006-07 TO 2016-17



Source: Australian Bureau of Statistics.

looks sluggish in a national context, it doesn't when considered in a global context.

Chart 7 is a reminder that the state's population growth looks very much in line with or ahead of many of South Australia's global peers, with average annual population growth rates over the past decade higher than seen in the likes of the United States, the United Kingdom and France – and a world apart from the shrinking population rates seen in Japan.

Or, if you like, it is Australia that's out of step here more than South Australia.

But that begs the true question – the one that lies at the heart of this issue: just how fast should South Australia's population be growing?

Most people would say that population growth isn't necessarily a goal in its own right.

Yes, bigger markets have greater economies of scale. But the key aim is to ensure that the South Australia of the future is as sustainably prosperous as it can be.

So is there a link between population growth and living standards? Yes, but it's complicated.

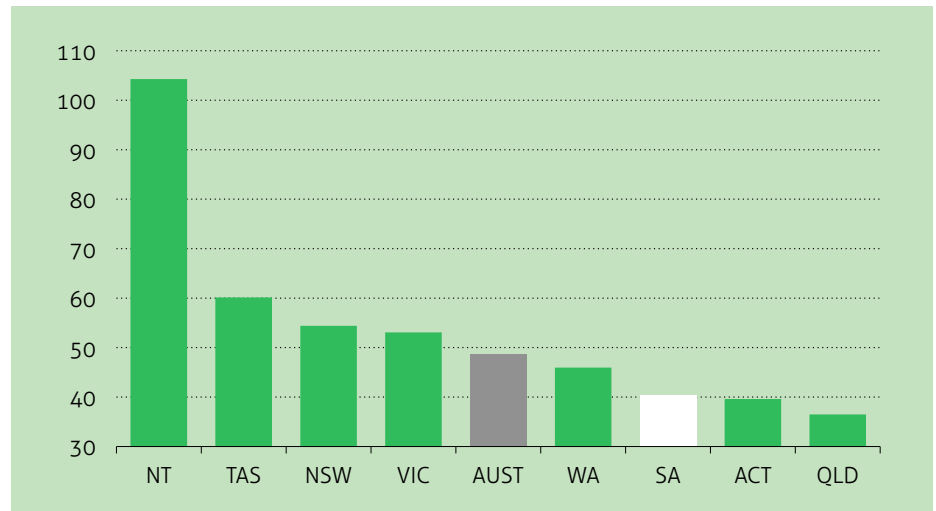
Back in the early 2000s, Federal Treasury began to point out that the amount that any economy can produce is driven by the "3Ps" of population, participation and productivity:

- Population: How many people there are in the economy.
- Participation: How many of those people choose to work.
- Productivity: How much each of those workers can produce.

The population angle is obvious: India and China have many more people than South Australia, so their economies are bigger and they can therefore reap the benefits of being bigger.

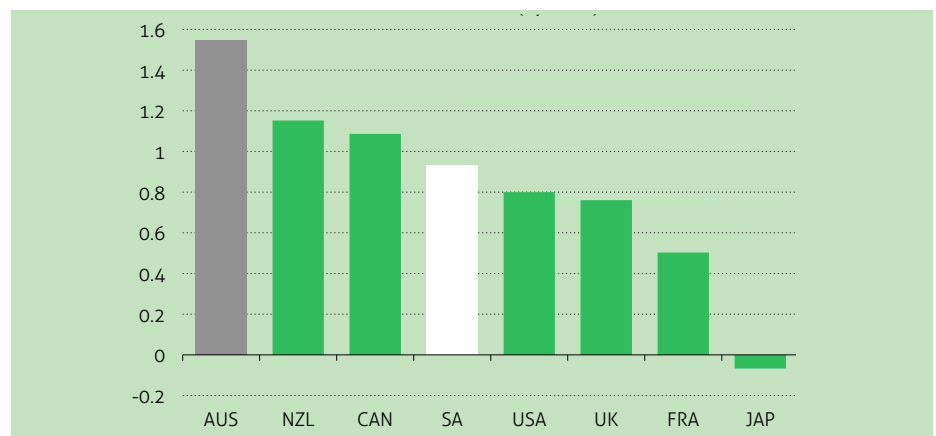
Economists term those benefits the "economies of scale", and they are why a population target for Adelaide such

CHART 6
JOB GROWTH AS SHARE OF POPULATION GROWTH BY STATE - 2006-07 TO 2016-17



Source: Australian Bureau of Statistics.

CHART 7
POPULATION GROWTH - 2006-07 TO 2016-17 (10 YEAR CAGR)



Source: Australian Bureau of Statistics.

as the two million by 2027 proposed in Deloitte's *Make it big Adelaide* report may be desirable.

Achieving that larger population would generate direct benefits of its own flowing from the existence of a larger market in this state. And both public and private capital chase towards where people choose to live, resulting in positive incentives in the way of investment from population growth itself.

Yet it is the other two levers – participation and productivity – that between them are the key drivers of living standards.

It's important to note that highly skilled workers are not only more productive, they also earn higher incomes and tend to stay in the workforce for longer.

Accordingly, if South Australians are to have higher living standards in the future, then they must have higher skills, giving them both relatively higher wages and long-lived careers.

So how is South Australia doing? Currently, 'living standards' (measured by our spending on ourselves) are lower in South Australia than in some other states, but not by much.

And the measure shown in Chart 8 (our

spending on ourselves) is arguably too simplistic a yardstick of living standards. Chart 9 takes that same measure, but then subtracts spending on food and shelter – the two key necessities of life. In doing so, it creates a measure of 'discretionary' living standards.

Given that shelter (housing) is relatively cheaper in South Australia than it is in some other states, there isn't much of a gap between average living standards across Australian states, with South Australia's average living standards just 6.5% below the national average.

That's a relatively sound position. That is, even in the absence of stronger population growth, South Australia isn't doing that badly.

But that doesn't change the fact that the state could be doing better – and that faster population growth could be one way to help boost living standards in South Australia.

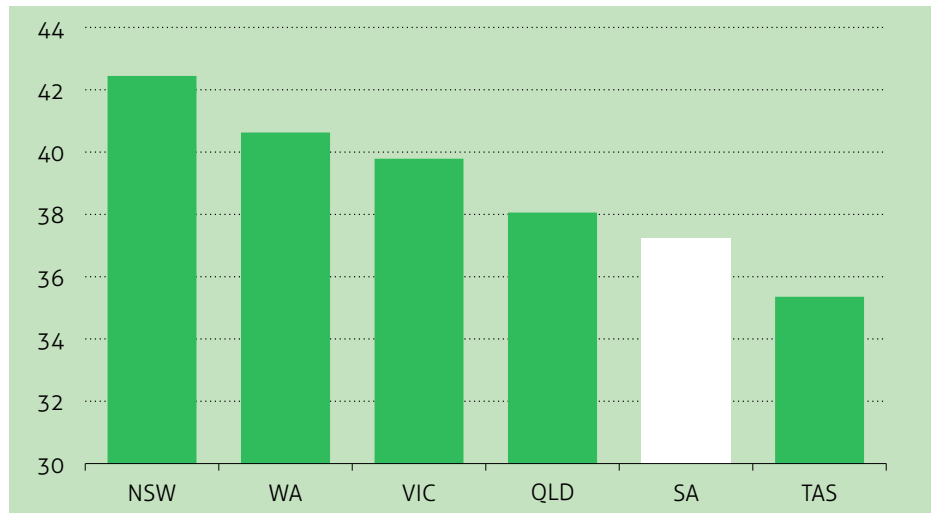
The link between productivity and participation suggests that faster population growth can help raise living standards in South Australia if it results in a lift in the state's skill levels.

To consider that, think about the ways in which Australia's migration program provides benefits to the nation's living standards.

One benefit comes from the age profile of migrants. Relative to existing residents, skilled migrants are more likely to be young adults, which means that governments provide relatively less to subsidise their education and health care while young – taxpayers in other nations have already done that for us. Moreover, the age profile of migrants to Australia means that they are likely, other things equal, to be in the workforce for some time.

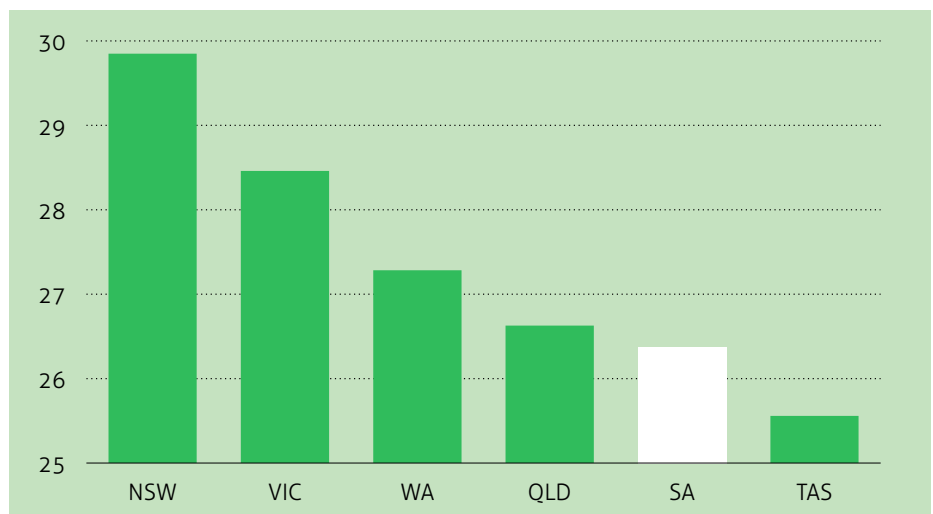
Further, and even more importantly, migrants to Australia are more skilled than the existing workforce. Those relatively higher skill levels mean they earn relatively higher wages and hence pay relatively higher taxes.

CHART 8
PRIVATE CONSUMER SPENDING PER HEAD - 2016-17 (\$ THOUSANDS)



Source: Australian Bureau of Statistics.

CHART 9
PRIVATE CONSUMER SPENDING (LESS FOOD AND IMPUTED RENT) PER HEAD 2016-17 (\$ THOUSANDS)



Source: Australian Bureau of Statistics.

Note that these arguments do not boil down to 'bigger is better'. Bigger is neither better nor worse in terms of its impact on our living standards unless there is a change in quality. However, that lift in quality is exactly what Australia's current migration program generates.

The key benefit to the average Australian of migration lies in the improvement in the national average in productivity and participation from the relatively higher skills of migrants and their relative age profile.

Or, in other words, the economic arguments in favour of a migration program focused on skilled workers arise not because migrants generate a bigger Australia, but because they support a 'better quality' Australia through lifting workforce productivity and participation.

Although the tabloid view of people arriving in Australia might focus on refugees, the dominant stream of new (permanent) arrivals are skilled workers. Even better, those skilled migrants are younger than the average Australian worker: some 83% of incoming migrants



to Australia are aged under 40, and over half of arrivals are aged between 20 and 34 years (compared with only one in five resident Australians).

In fact, of the 190,000 migrants arriving as part of the Australian Migration Program in 2015-16, more than two-thirds arrived under the skilled migration category.

Those strengths, in terms of both skills and age, translate into wider gains in productivity and participation, meaning that migrants can raise our living standards.

This isn't exactly new – after all, Australia shifted to an immigration program dominated by skilled workers long before the rest of the world began to think about these issues.

But do those benefits spread? You may think those higher incomes are wholly and solely being earned by the migrants themselves. Higher skills mean higher wages, while younger workers will also stay in the workforce for longer. That means that migrants pay above average rates of tax, which is then returned to the wider populace via the spending of State and Federal Governments.

While bigger isn't necessarily better on the population front, bigger can be a means to an important end: higher living standards. That is because where increased migrant numbers can generate a genuine gain is through the impact they can have on South Australia's economy due to higher productivity and participation. Our migrants are mostly highly skilled and relatively young – a combination which offers gains in both productivity (thanks to their skills) and participation (thanks to their age and to their skills). Other things equal, that means skilled migrants more than pay their way, contributing notably to tax collections while drawing on public spending by rather less than the average.

That doesn't mean it should be open slather – for example, it wouldn't be a framework that would lead to an endorsement of the calls made by some commentators for South Australia to allow visa access for those with lower skill levels.

Why not? Because settling for lower skills would provide, at best, a short-term sugar hit to South Australia's growth, but at the cost of our longer term living standards.

That is, the smart play is to use

population policy to maximise the state's living standards rather than to maximise its population. To summarise:

- Size isn't absolutely everything;
- But if 'bigger' is achieved via a targeted skilled migration program, then it can lead to a lift in living standards for the population as a whole (not just the migrants themselves).

But on the other hand, bigger itself does have its own benefits. These are due to strong population growth driving economic growth, and a larger population creating economies of scale.

And without people power, economies just don't work as well as they could. People produce, build, spend, organise and lead. Population growth will therefore help to ensure Adelaide remains a significant city in Australia's economic life. Quality is the key to most of the gains that migration has to offer, but quantity helps too: it will work in our favour if we attract those with the right skills and ambition to Adelaide, because they share ideas from one side of the city to the other and beyond.

Are there other objections worth considering here? Three are often raised:

- That “migrants steal jobs”;
- That “migrants stress infrastructure”; and
- That “migrants dilute our mineral wealth”.

All three are worth considering.

Do “migrants steal jobs”?

No. The argument that “migrants steal jobs” is commonplace, along with the belief that there are only so many jobs to go around.

Actually, that’s not right. The number of available jobs grows alongside population for the simple reason that someone who gets a job then earns an income. And when that income gets spent, that then creates the next job.

In fact, if you believed that there was only ever a fixed number of jobs, then you’d believe – as some argued back in the 1970s – that married women were “stealing jobs” when they entered the workforce in large numbers.

Or, to fully point out the logical absurdities here, if you really believed that migrants steal jobs, then you’d also

think that we should never have any children, because those children would then grow up and “steal jobs”.

Do “migrants stress our infrastructure”?

Only temporarily. Nor do migrants mess up our infrastructure. Yes, this is a nation with key infrastructure failures. And by definition extra people means extra stress on everything from our roads to our schools.

But, just like the last objection, the underlying assumption here is that there’s a fixed amount of infrastructure.

And, once again, that’s just not true. More roads and more schools can be built. Even better still, a bigger population can pay for the better infrastructure that the extra people need – with the increased tax take paying for the likes of extra schools and new roads.

So although extra people can temporarily stress infrastructure, the key word is ‘temporarily’.

Do “migrants dilute our mineral wealth”?

Yes. The last two objections examined – the view that “migrants steal jobs” and

that “migrants stress infrastructure” – turned out not to be true because there aren’t a fixed number of jobs or schools or roads or other types of infrastructure.

But that changes when it comes to the nation’s mineral wealth. When it comes to minerals, it’s undoubtedly true that there’s only so much mineral wealth to go around.

Yet it’s possible to put some figures on that, and they turn out to be pretty small. The states – as a group – raise around \$8 billion a year in royalties on mining, which translates to an annual benefit to Australians from the nation’s mineral wealth of some \$320 a year.

But a full decade of migration (with a permanent intake of 190,000 a year) would reduce that by just \$25 a year – or 50 cents a week.

Accordingly, while “diluting our mineral wealth” is entirely true, it is a very small negative to stack up against some potentially large positives. And that would be likely to remain true even if there are some other channels by which our mineral wealth benefits Australians –



such as through a share of the wages that miners earn or the company tax that they pay.

From the world? From the rest of the nation? Or keeping people here at home?

The discussion above has been wholly and solely in terms of the potential impact of migrants from the rest of the world on the living standards of South Australians.

But the exact same concepts apply if:

- Young, skilled people from the rest of Australia can be tempted to move to South Australia, and/or
- South Australia can hang on to more of its best and brightest locals rather than losing them to other states or the rest of the world.

What's happening?

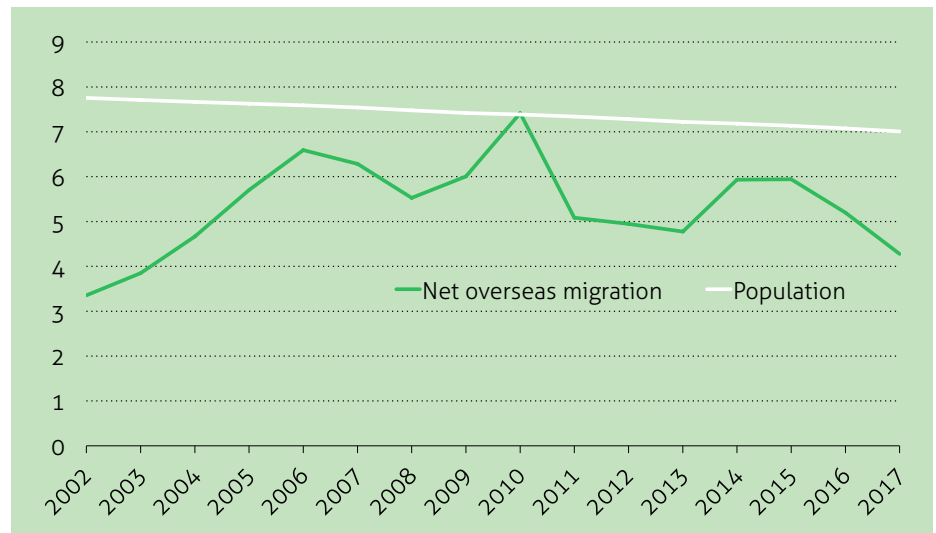
In a debate that's known to generate more heat than light, it's worth a moment to consider some of the basic facts and figures.

At the national level, Australia's population is sprinting. The 2016 Census shows that Australia remains on track to have a population of close to 40 million people by the middle of this century.

The Bureau of Statistics, when it released the key elements of the 2016 Census data, summarised as follows:

- The 2016 Census counted 23.4 million people living in Australia, an increase of 8.8% since the 2011 Census. Australia's population has more than doubled in the 50 years since the 1966 Census, which counted 11.6 million people.
- The majority of Australians continue to live in the eastern mainland states. Almost 80% lived in NSW, Victoria, Queensland and the ACT in 2016. The ACT, Victoria and WA experienced the fastest growth between 2011 and 2016, with each increasing by 11%.
- In 2016, more than two-thirds of Australians lived in a capital city.
- Between Censuses, the number of people living in capital cities grew nearly twice as fast as the number of people living outside of capital cities (10.5% and 5.7% respectively).
- Sydney remained the largest city, growing by an average of 1,656 people per week between the 2011 and 2016 Censuses. Melbourne however is catching up, growing an average of 1,859 people per week over the same period.
- The 1981 Census was the first to count more women than men in Australia. Women have continued to outnumber men since, making up 50.7% of the population in 2016.
- The median age of all Australians increased to 38 years in 2016, after being at 37 years since the 2006 Census, reflecting Australia's ageing population. This is also highlighted by the increase in the proportion of the population aged 65 years and over, from 14% in 2011 to 16% in 2016.
- The proportion of the population that is female increased with age. Of those aged 65 years and over, 54% are female, compared to 63% of those aged 85 years and over.
- The number of people born overseas

CHART 10
SOUTH AUSTRALIA'S SHARE OF NATIONAL POPULATION AND MIGRATION - %



Source: Australian Bureau of Statistics.

increased by almost one million people between the 2011 and 2016 Censuses, rising from 25% of the population in 2011 to 26% in 2016. While England and New Zealand remained the most common countries of birth after Australia, the proportion of people born in China and India has increased since 2011.

- Couple families with children remained the most common type of Australian family in 2016. However, the proportion of Australian families they make up has decreased over time. In 1991, 54% of families were couples with children, dropping to 45% in 2016.

Finally, allow us to put those numbers – as well as more recent population stats – into perspective:

- Population growth in Australia has lifted of late to be 1.6%. That's the best we've seen since mid-2014, with that small recovery mirroring a matching degree of recovery in net immigration.
- It also keeps Australia near the front of the pack among the rich nations of the world.
- That pick-up partly reflects nothing more than the slowing wind-down in

engineering construction work as the impact of slower growth in China since 2012 passes through the economy.

- Part of this is actually a lift in numbers of foreign students and international visitors, as the matching fall in the Australian dollar since 2012 boosts the number of people studying or coming as tourists.

It's a similar story in South Australia, just older:

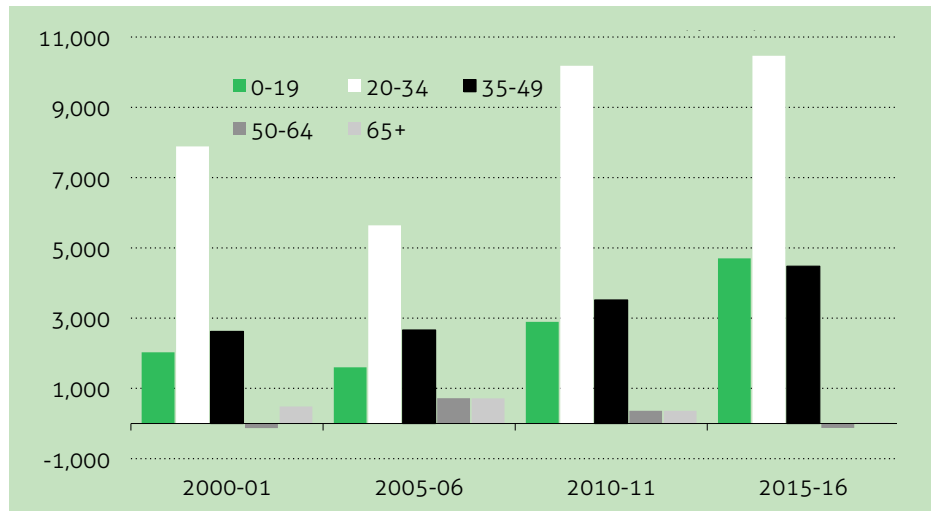
- The median age in South Australia is 40 years, which increased by one year over the five years since the 2011 Census, and by two years since the 2006 Census.
- The median age of persons born overseas is older in South Australia than the nation as a whole, at 49 compared to 44 years old. This reflects the relatively low share of younger incoming migrants settling in the state.
- The typical housing arrangements in South Australia are the same as that for Australia, with couple families with children being the most common family type.

South Australia also has relatively low levels of net overseas migration, as well as relatively large net outflows of 20 to 34-year-olds to interstate migration.

The relatively low share of net overseas migrants landing in South Australia comes despite Adelaide being one of the largest cities included in Australia's regional visa category until November 2017 (which makes it easier for incoming migrants to access a skilled visa, but requires they live in a regional area for several years on arrival). Following the removal of Perth from the regional list, Adelaide is now the largest city in this category. The regional visa category started in 2004, and net overseas migration to South Australia almost doubled between 2003-04 and 2005-06.

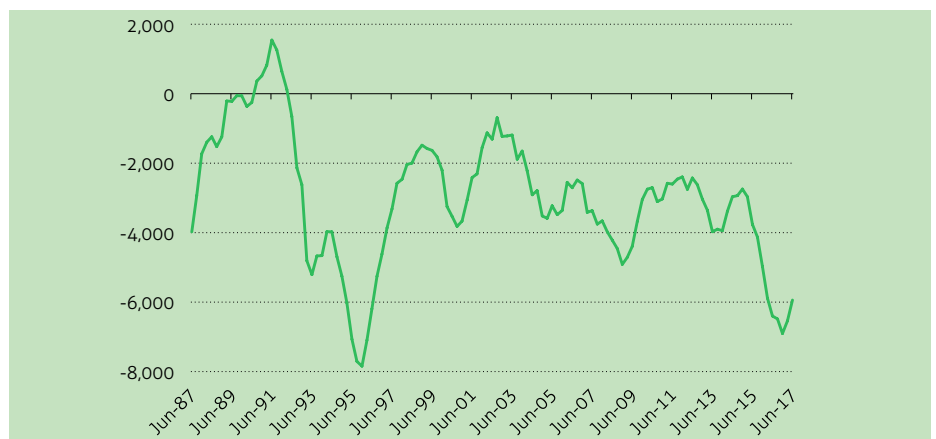
Yet net overseas migration to South Australia was less in 2015-16 than a decade earlier, suggesting more needs

CHART 11
NET OUTFLOWS TO INTERSTATE MIGRATION FOR SOUTH AUSTRALIA (5 YEAR TOTAL)



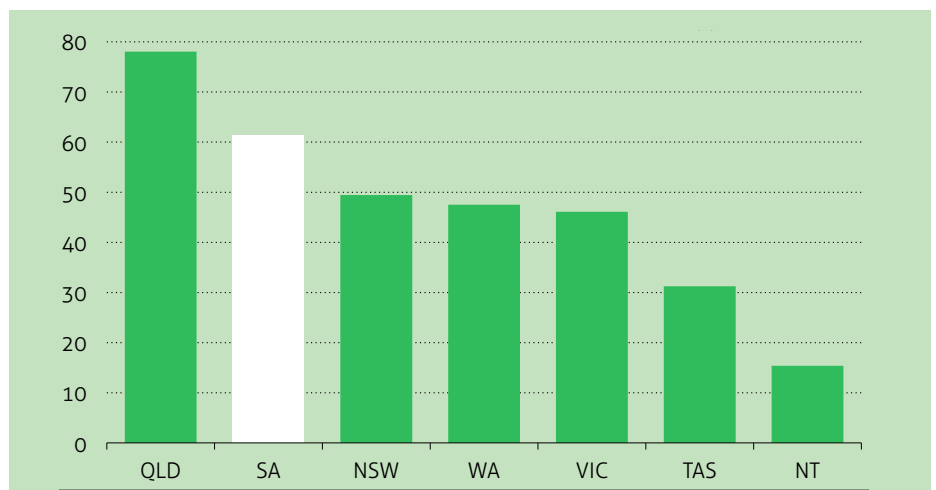
Source: Australian Bureau of Statistics.

CHART 12
SOUTH AUSTRALIA NET INTERSTATE MIGRATION - ANNUAL



Source: Australian Bureau of Statistics.

CHART 13
REGIONAL POPULATION GROWTH AS SHARE OF CAPITAL CITY POPULATION GROWTH (%) - 2005-06 TO 2015-16



Source: Australian Bureau of Statistics.



to be done on this front. The removal of Perth from the regional category for migration purposes might help, and this is something that will become clearer in coming years.

As a state, South Australia has been losing some of its best and brightest. The age distribution of outflows to interstate migration shows the clear majority of outgoing individuals in the 20 to 34 age cohort. The next largest groups are 0 to 19 and 35 to 49 years, such that the only age groups not moving in relatively large numbers from the state are those aged above 50.

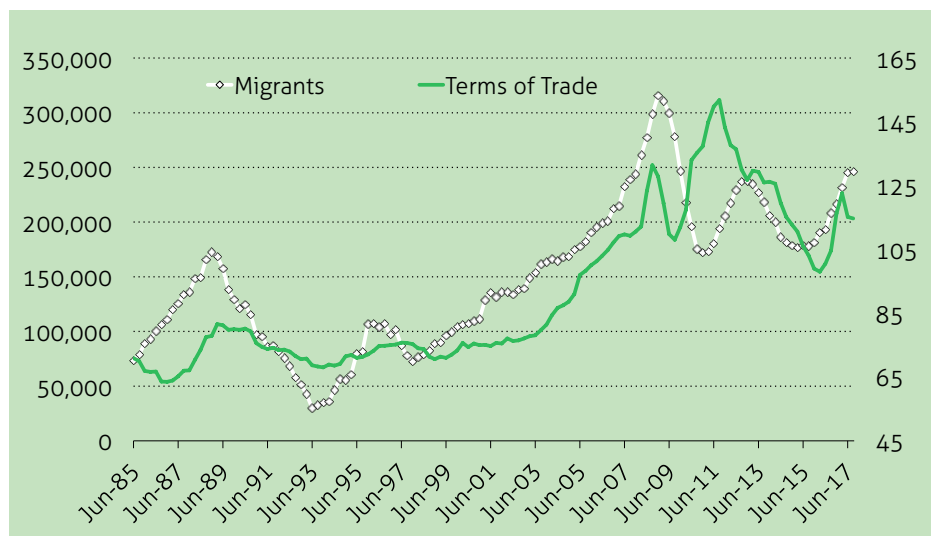
Looking at migration outflows by age indicates that these are the groups most likely to be pursuing opportunities elsewhere in Australia – whether that be education or employment.

Finally, Chart 12 shows how those flows of people from South Australia to other states have moved over time. That’s a reminder that, if there’s a global “war for talent”, then South Australia has been losing the battle of late: interstate migration hasn’t gone our way (in net terms) since a brief flurry at the start of the 1990s. And although the latest news is slightly better, that comes after a notable worsening from late 2014 onwards.

Is this an Adelaide versus the rest of the state issue?

To the extent we have an issue, is it one

CHART 14
NET ANNUAL MIGRATION AND THE TERMS OF TRADE



Source: Australian Bureau of Statistics.

for the state as a whole, or is it more specific to areas outside of Adelaide?

That’s a relevant question because weak population growth – and the associated risk around economic decline – has been a front of mind issue for some parts of rural and regional Australia.

And, if true, then there may be a case to consider ‘region specific’ issues and incentives.

Yet the data doesn’t particularly lend itself to that view.

Chart 13 shows the ratio of population growth ‘outside the state capital’ to ‘in

the state capital’ across Australia over the decade to 2015-16. It is interesting to note that South Australia has been second only to Queensland in maintaining regional population momentum relative to the pace of population gains being made in the state capital.

That’s relatively good going.

Or, to put that differently, Adelaide is having more success on the population growth front than the rest of the state, but the gap in South Australia is much less than that evident in the rest of Australia.

Other things equal, that says that regional prioritisation isn’t quite as pressing an

issue in South Australia as it is in some other states.

What next?

Bigger can be a means to an end for higher living standards, and is even better if it consists of highly skilled people.

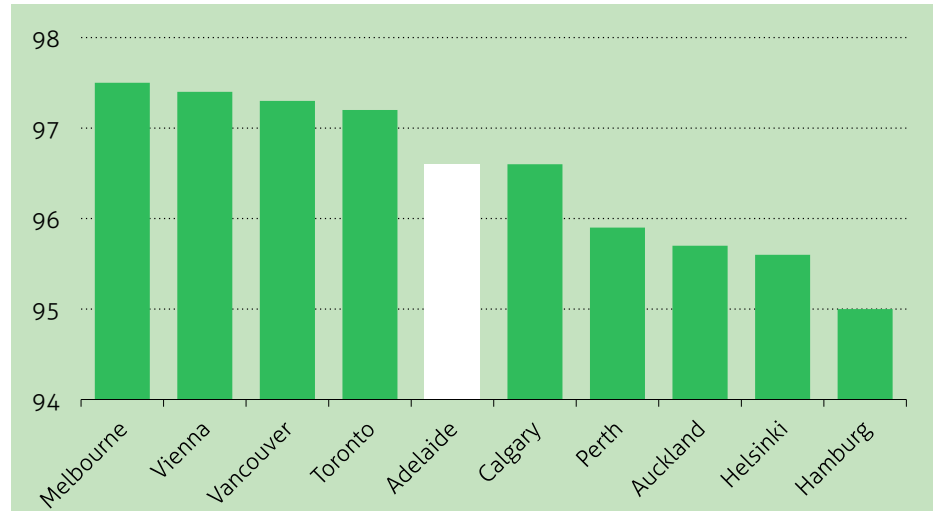
Yet there’s a chicken-and-egg issue to address. After all, even if we do want population growth to be different in the future to what we’ve achieved in the past, is that achievable?

There are no magic wands that can be waved: South Australia’s population won’t grow faster simply by wishing for that to happen.

In fact, that raises a larger issue – the extent to which governments and citizens have a say over population policy. For example, although Australia has a tight rein over its permanent migration intake, the actual level of net migration has moved substantially over the years. That’s the result of swings in the number of:

- Temporary migrants (for example, students and those here on temporary

CHART 15
2017 GLOBAL LIVEABILITY RANKING - TOP 10



Source: The Economist Intelligence Unit.

business visas);

- Expatriates (Australians temporarily living overseas); and
- New Zealanders (who essentially have the right to come and go).

The upshot is that, at any moment in time, economic conditions are actually a more accurate indicator of net migration to Australia than is the level of the permanent migration intake set by the Federal Government.



In turn, that's why the single best leading indicator of migration flows is the terms of trade – the ratio of export prices to import prices.

There are good reasons for that. When the world gives Australia a pay rise (as it does when it 'costs' fewer tonnes of iron ore to buy a TV), then purchasing power goes up, construction and retail spending lift, employment makes gains, unions backpedal on their opposition to migration, business groups demand action to address developing skill shortages, Australian expatriates find returning home more attractive, would-be expatriates are given pause, and those who face fewer restrictions on their movements – such as New Zealanders – are more likely to come.

“Perhaps most notably, Adelaide is one of the best places to live in the world.”

That explains the broad relationship – the 'migration equation' – shown in Chart 14: economic good times foster an increase in migrant inflows, while downturns see those flows ease off.

In turn, that points to the chicken-and-egg issue that exists. South Australia can indeed attract more high quality migrants than it already does, but those migrants are more likely to come if the state's economy is already stronger in the first place.

After all, South Australia has seen a falling share of Australia's population since 1966, and a trend slowdown in population growth over the past decade.

Or, to put that another way, there are no easy answers.

Then again, despite debating these issues for many years, we've been relatively short on action, let alone a wider plan.

To be clear, economic growth – and the resultant implied potential for good incomes that grow over time – isn't the only factor in the decisions that people make. And there's already a lot going for South Australia.

Perhaps most notably, Adelaide is one of the best places to live in the world.

Chart 15 shows one of the relevant surveys here, from the Economist Intelligence Unit. It indicates that Adelaide's 'liveability' is ranked in the world's top 10 cities – a great result. Adelaide scored a little lower than Melbourne, but higher than any other state capital in Australia.

Yet ultimate success will be measured, at least in part, by South Australia's ability to snare a larger share of the net migrant flows to Australia. And, as Charts 10 and 12 show, the simple summary on that front is that our share of international and domestic migration flows is still running well below our share of Australia's population.

All that points to work needing to be done to help ensure continued prosperity for the state.

To get there will require businesses operating in South Australia to invest in industries with greater growth potential. By doing so, that will generate the stronger economy required to make the state a more attractive place for families to settle and for businesses to set up shop.

Most importantly, South Australia needs to proactively retain and attract young workers.

The bottom line is simple: ensuring our existing jobs continue to be based in Adelaide and that we're able to attract the best and brightest will be ever more reliant on scale in the future.

So how do we attract and retain the people needed to drive economic growth? And how do we ensure that we own a culture that fosters innovation, creativity and productivity?

We can do that by leveraging the competitive advantages that we have now, building on our existing strengths to grow service sector jobs.

As a simple example of that, South Australia already punches above its weight in some industries, and has the potential to double down on those existing successes in the likes of:

- Defence industries;
- Creative industries;
- Health and medical industries; and
- Professional and information technology services.

Our service sectors require people to be living here in Adelaide, with greater scale important in encouraging investment and in developing such sectors. And without growth in services, we may miss our opportunity to fill the hole left by traditional manufacturing and decades of slower growth.

Yet this focus should not come at the cost of missing opportunities that allow South Australia to surf the waves of future global growth. Industries where global growth is strong and where there are significant global growth opportunities for South Australia include the likes of:

- International education;
- Energy and gas;
- Tourism; and
- Agribusiness.

South Australia's performance in these industries is already reasonable, but there is still room for greater growth in each.

In each of these sectors we must identify opportunities to lead the nation, not come middle of the pack. But, as the old adage goes, 'a rising tide lifts all boats' – and investment in high potential industries will certainly help on this front.

Managing a business can be complex. Your banking doesn't have to be.

At BankSA, we have dedicated industry banking specialists who are committed to helping businesses in both metro and regional South Australia.

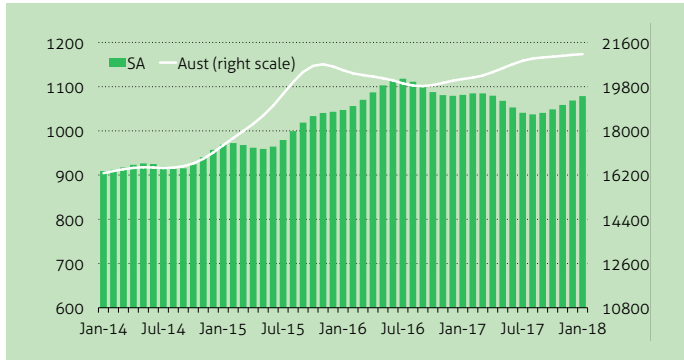
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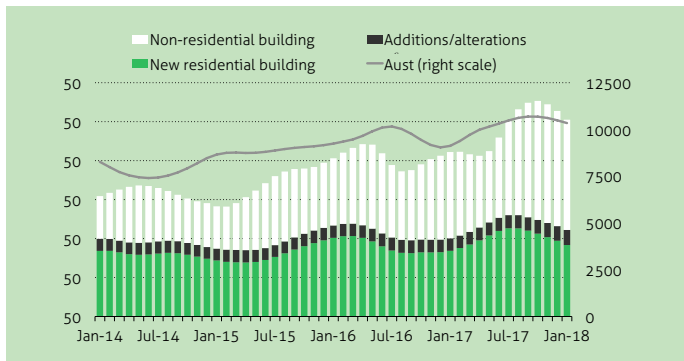
Statistics

CHART 1
SECURED HOUSING FINANCE COMMITMENTS - TREND (\$M)



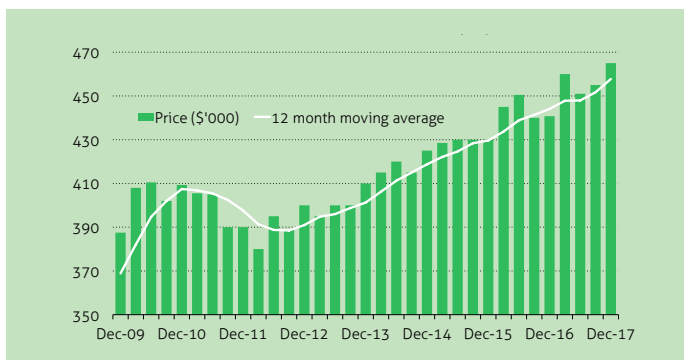
Housing finance commitments in South Australia are again on the increase – rising back from a low seen in the middle of 2017 – although commitments still remain below levels observed a year earlier. As with a number of statistics that are strongly influenced by population growth, South Australia’s trends are lagging behind those of the rest of the country. National commitments themselves are starting to slow, suggesting a cooling down of the nation’s property market.

CHART 2
BUILDING APPROVALS - TREND (\$M)



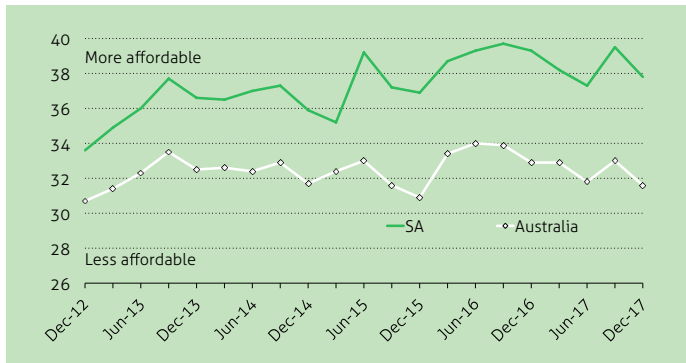
The value of local building approvals has been falling since it peaked in October last year, with commercial construction ('non-residential building') leading the charge. This is expected following the completion of two large projects; the Royal Adelaide Hospital and the upgrade to the Adelaide Convention Centre. Despite the slowdown in building approvals, the outlook seems reasonable. The State Budget has allocated over \$750 million for new health and education infrastructure that is expected to unfold over the next few years. Housing approvals are easing as well, but may rebound once the rise in housing finance commitments shown in Chart 1 flows through to actual construction.

CHART 3
MEDIAN PRICE OF HOUSES SOLD - ADELAIDE (\$'000)



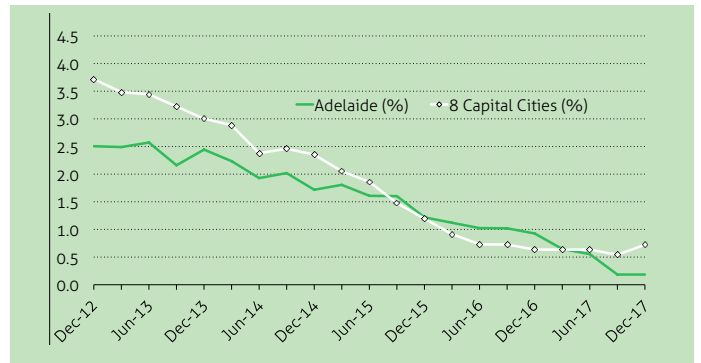
Last year marked a fifth successive year of solid house price growth in Adelaide, with Adelaide’s median house price rising 3.3% across 2017, thanks in large part to a sharp jump to \$465,000 in the final three months of the year. The most recent data shows that median house prices are increasing in all capital cities across Australia with the exception of Canberra. This upward local trend was seen across all South Australian zones with the exception of the Middle Adelaide zone where the median price remained steady.

CHART 4
HOME LOAN AFFORDABILITY - INDICATOR STATISTIC



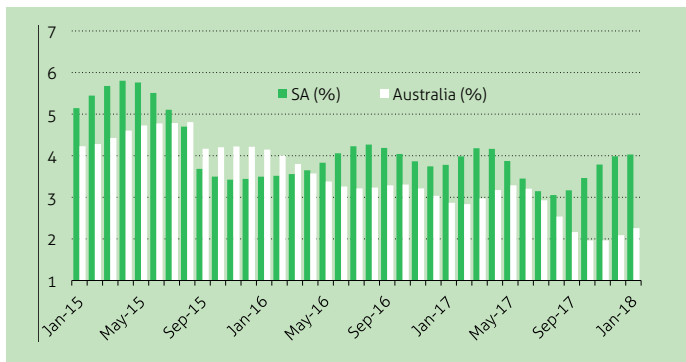
The last 18 months have seen a moderate fall in housing affordability across South Australia and Australia – although South Australia’s housing remains close to the most affordable in the country. But, as the chart shows, despite the strong increases in prices across the past five years, falling mortgage interest rates have seen affordability improve slightly over that extended period. Critically, the number of loans to first home buyers is currently buoyant, rising 19.0% since the end of 2016. This drove a solid rise in overall loans, with the average loan size rising 2.7% across the year.

CHART 5
INDEX OF DWELLING RENTS - % CHANGE ON PREVIOUS YEAR



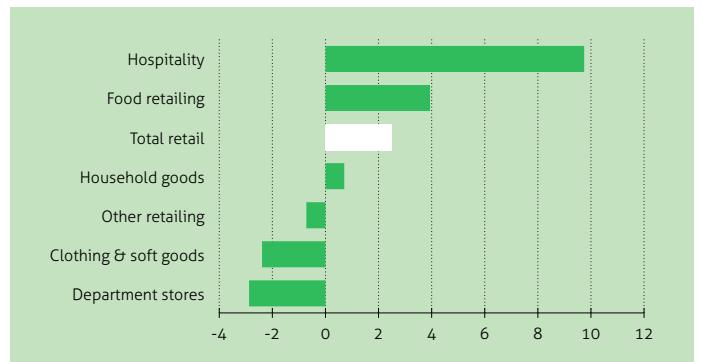
Relatively stable affordability has been matched by easing rates of growth in dwelling rents both here and in Australia more generally – with local rent rises now sitting well below the general rate of price increases in the economy. Even though the local economy is performing better than it has over the past decade, inflation growth is starting to edge upwards and population rises remain solid, low growth in average wages is making it difficult for landlords to raise rents.

CHART 6
RETAIL TRADE - % CHANGE OVER PREVIOUS YEAR - TREND



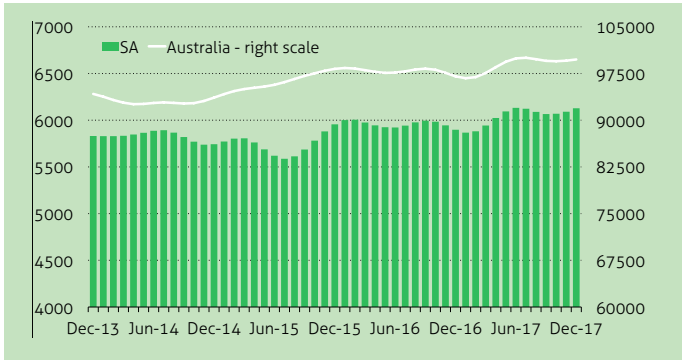
Retail growth in South Australia has picked up, and is currently outpacing the nation. Although this is nothing new – retail growth in the state has outperformed the national average across most of the period shown above. The gap between the state’s retail growth and the national average diverged sharply in the second half of last year. That resulted in an acceleration in local growth even as retail growth in the nation slid down to its lowest point over the past four years. That pace of growth might be hard to sustain without better growth in wages.

CHART 7
SOUTH AUSTRALIAN RETAIL - % CHANGE JANUARY 2017 TO JANUARY 2018 - TREND



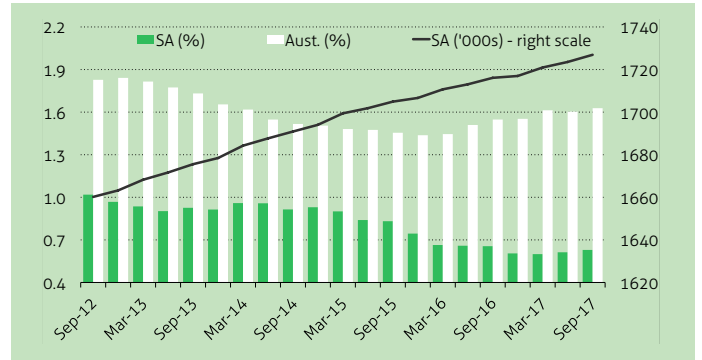
A breakdown of total retail growth provides more insight across different spending groups. South Australia’s recent retail growth was largely driven by the surging hospitality sector, a continuing trend in a state known for its culinary excellence (the pace of growth has almost doubled since the middle of 2017). At the other end of the scale, department stores continue to not just fall behind, but contract overall. That is, however, a continuing trend for Australia more generally.

CHART 8
NEW MOTOR VEHICLE REGISTRATIONS - TREND



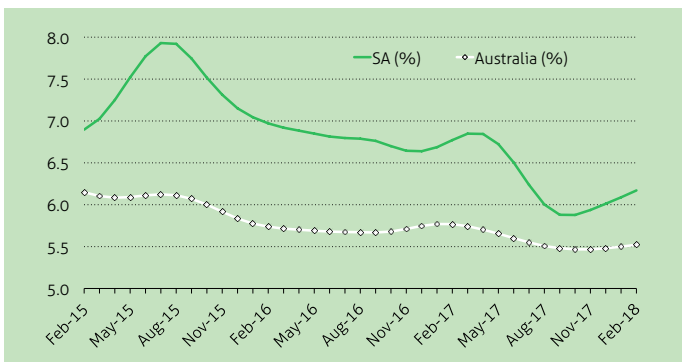
New car sales picked up slightly in the state towards the end of 2017, after a slight dip recorded mid last year. The longer term picture here suggests that car sales, both locally and nationally, are rising steadily, but no faster than what underlying population growth would suggest is necessary.

CHART 9
POPULATION TRENDS - % CHANGE ON PREVIOUS YEAR AND LOCAL LEVEL ('000S)



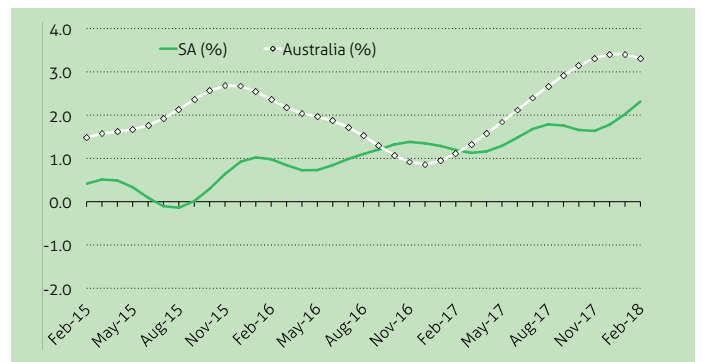
The state's population growth still remains close to the weakest it has been in years, although it is starting to turn. Trends in national growth have generally emerged earlier than in South Australia, with a resulting lag between national and local trends across a number of economic variables – particularly in the housing sector. The key negative for South Australia remains the outflow of population to other states, with the loss of young adults a critical problem for longer term prospects.

CHART 10
TREND UNEMPLOYMENT RATE (%)



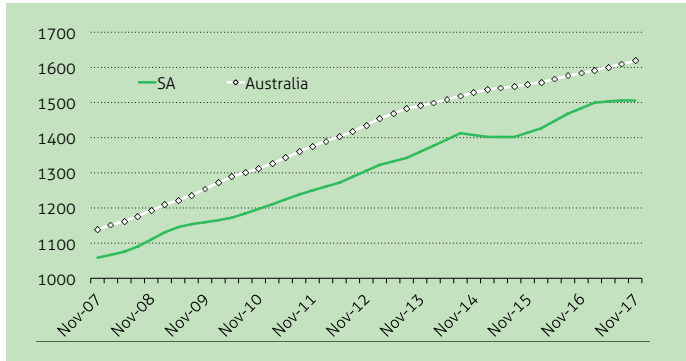
Unemployment rates are affected by two critical factors – the rate of employment growth (which Chart 11 shows is pretty positive) and the number of people entering (or leaving) the workforce. While the longer term trend shows how the local labour market has been improving since 2015, the most recent results show unemployment rates rising. This increase, however, is significantly due to a rise in participation rates suggesting that (at least in part) people are more confident about their prospects of finding employment. As a result, even this minor increase is less worrisome than it might appear.

CHART 11
EMPLOYMENT - % CHANGE ON PREVIOUS YEAR - TREND SERIES



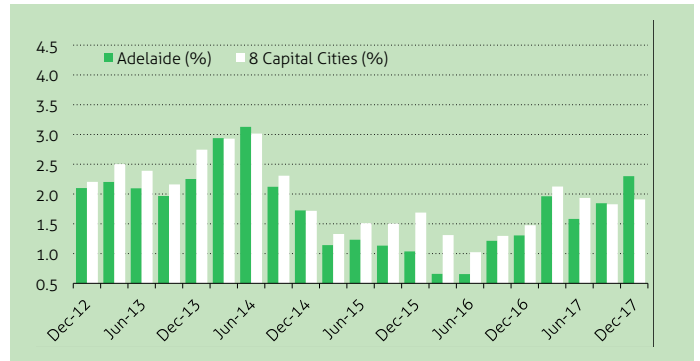
South Australia's employment growth continues on its upward trend and is now at its strongest since mid-2011. The state's pace of job growth increased despite a recent slowdown across the rest of the country. This is an even better story for the state given its challenging demographic position. Population growth remains below average, and the state's population remains older than the other mainland states.

CHART 12
TOTAL AVERAGE WEEKLY EARNINGS (\$) - PERSONS IN FULL-TIME EMPLOYMENT



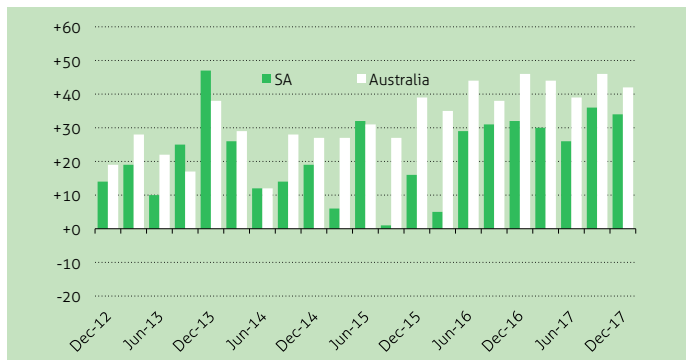
The news on the number of jobs is positive, but when it comes to the money we are getting, the story is far less impressive. Nationally, wages growth is still running far slower than it did across the period until 2013, while local wages are not just slowing, they actually declined through the middle of 2017. That fall has occurred despite the state’s stronger economy, and a slight rise in inflation – meaning that the purchasing power of workers has been eroded.

CHART 13
CONSUMER PRICE INDEX, ALL GROUPS - % CHANGE ON PREVIOUS YEAR



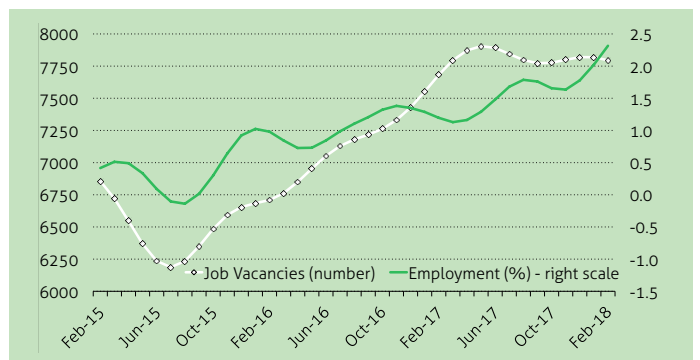
Inflation is gradually returning to the economy – with the national rate pushing back closer to the Reserve Bank’s target zone of 2-3%. Adelaide’s inflation revved up further and has even surpassed the nation’s rate lately. In fact, over the past year, Adelaide recorded the largest increase of all capital cities – a result largely reflective of improvements in the state’s economy.

CHART 14
SMALL BUSINESS CONFIDENCE - NET BALANCE



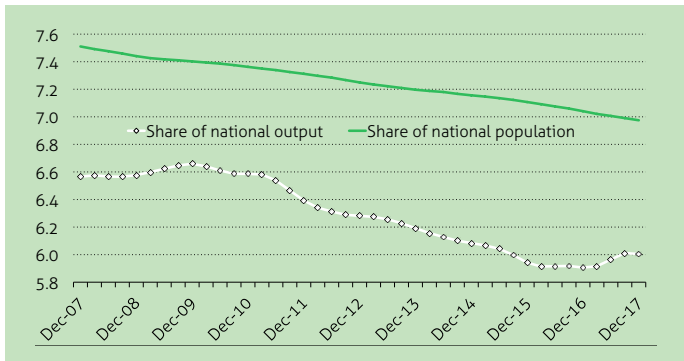
Small business confidence remains solid in the state, generally trending up across the past few years. That reflects trends both nationally (where a similar trend is evident) and internationally – where earlier concerns about global economic growth have turned out to be overstated. While the state result suggests that relatively more businesses expect conditions to improve than decline, the outlook is significantly more positive among metro businesses than in regional areas. While a similar trend is seen in other states, the gap is far larger in South Australia.

CHART 15
EMPLOYMENT GROWTH AND JOB VACANCIES



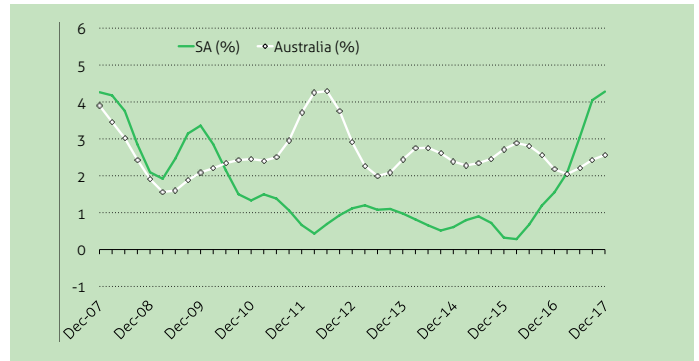
Job vacancies in the state remain at some of the highest levels observed in recent years. The number of vacancies has eased off recently, which is reflective of rises in job growth – more vacant job spots are being filled up. However, the series is also a solid leading indicator of further trends in the labour market, suggesting that local employment growth may peak across 2018.

CHART 16
SOUTH AUSTRALIA - SHARE OF NATIONAL OUTPUT AND POPULATION (%)



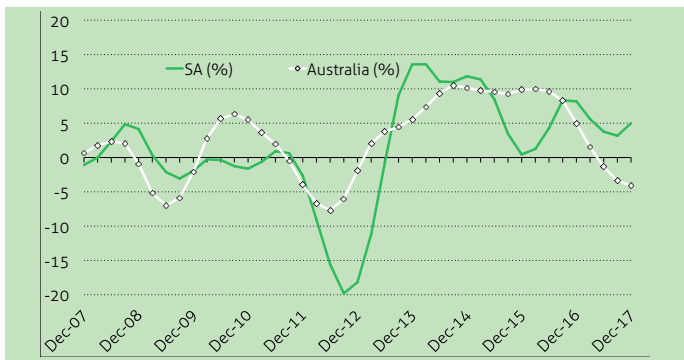
South Australia’s share of the national output continues to follow a downward trajectory, while population growth in the state has consistently lagged the national average. The state’s younger cohort continues to move interstate, the share of international migrants remains low, and a relatively older population means relatively fewer births. However, there has been a pick up in the state’s share of the nation’s economy of late, reflective of improved output growth for the state – notably from the resurgent agricultural sector.

CHART 17
OUTPUT - % CHANGE ON PREVIOUS YEAR



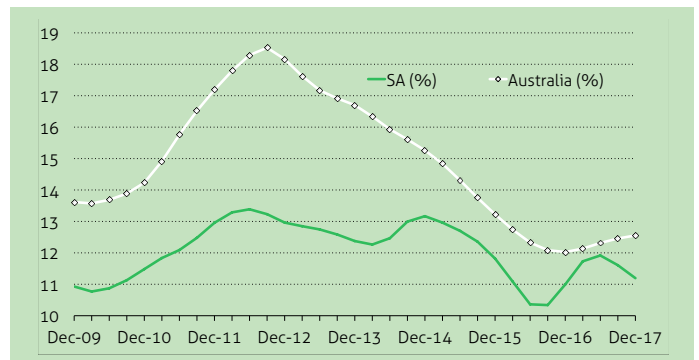
Overall output growth suggests that South Australia’s economy is now growing at its fastest pace for a decade – suggesting that the strong labour market performance has been more important than the less impressive results on population. Key recent positives include rising utility investment in gas, renewable and battery storage projects, particularly strong growth in retail, exports, agriculture and tourism. Looking ahead, the current pace of growth will be very hard to maintain in an economy challenged by weak population growth and a shrinking manufacturing sector.

CHART 18
DWELLING INVESTMENT - % CHANGE ON PREVIOUS YEAR



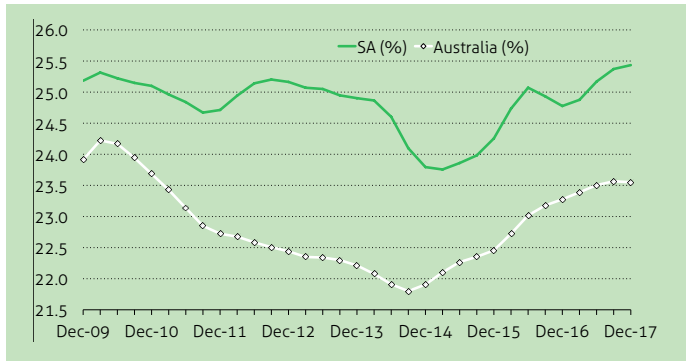
Despite lagging behind in terms of building approvals and housing finance, overall spending on housing across South Australia (including additions, alterations and other developments) continues to rise even as the national level declines. As housing investment has been a key pillar of economic growth in Australia across recent years (rising around 10% per annum while the overall economy rose at a quarter that pace), the decline means other types of growth will be needed to keep the overall economy expanding.

CHART 19
BUSINESS INVESTMENT - % OF OUTPUT



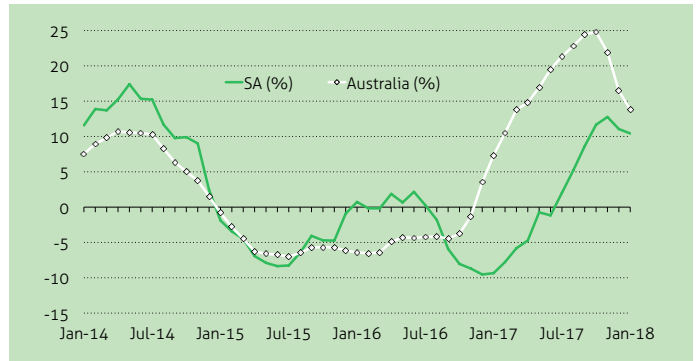
South Australia’s business investment (measured here as a share of the overall economy) has eased of late. But that fall looks worse than it really is, given the recent strength in output growth. Over the longer term, the data shows how little of the mining boom (which drove huge investment in Western Australia and Queensland) actually eventuated in South Australia. Local levels of business investment remain in respectable territory; largely driven by new utility investment – a trend that will provide a pipeline of further work across 2018.

CHART 20
PUBLIC SECTOR OUTPUT - % OF TOTAL CONSUMPTION AND INVESTMENT



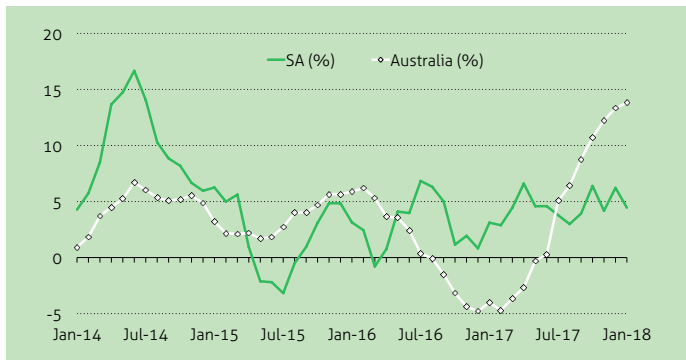
The state’s public sector share of the economy is rising, suggesting the public sector is continuing to grow more rapidly than its private sector counterpart. Over recent years, the South Australian Government has increasingly allocated funds towards utilities and transportation investment, boosting this share – although the end of the mining boom more generally has played its part in limiting private sector growth. This measure may see further upward pressure in future years as an ageing population sees increasing demand placed on the public health sector.

CHART 21
MERCHANDISE EXPORTS - % CHANGE LAST TWELVE MONTHS TO PREVIOUS

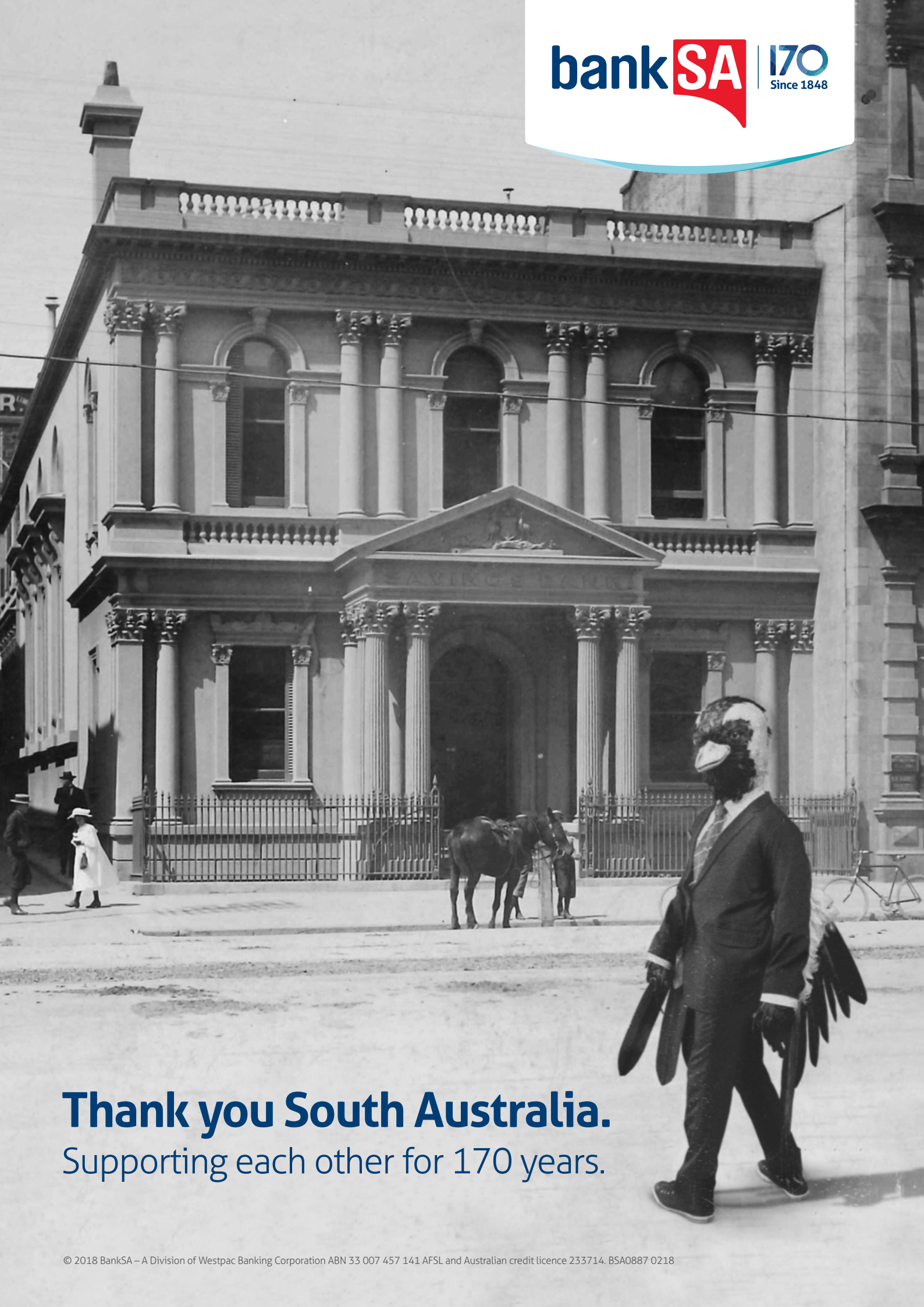


Merchandise exports are surging locally – and even more so nationally – as the global economy continues to exhibit surprisingly strong growth. The same factors that pushed business investment levels across the last 10 years – expansion of Australia’s mining capacity – are now showing up in an increasing ability to supply those materials to the rest of the world. Sadly, that is less of a boon to South Australia, where the decline in manufacturing has been a brake on export growth. As a result, the state’s share of overall exports has now fallen back to the lowest levels on record.

CHART 22
MERCHANDISE IMPORTS - % CHANGE LAST TWELVE MONTHS TO PREVIOUS



South Australia’s imports growth has been fairly stable for a number of years – at least relative to the national trend which has a number of periods of growth and contraction over the past three years. The national trend was largely driven by imports of capital goods (despite big engineering projects wrapping up) suggesting that it should drive longer term growth in the Australian economy.



Thank you South Australia.
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Trends August 2018

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