

**AEI International Education Briefing
Hotel Realm, Canberra, 4 March 2011**

International education and the world economy
Chris Richardson, ACCESS ECONOMICS

You know the score

- **Early 2010 policy changes loosened the link between studying here and getting permanent residency here.**
- **That was a much needed policy change, but it came just as the sector sailed into a storm. Publicity over the treatment of Indian students, closure of colleges leaving some students high and dry, a lift in visa costs, the change in the ease of getting permanent residency and the rise of the \$A have all conspired to cut very sharply into foreign student numbers.** The impact is most evident in VET, in English language courses, among Indian students and in Victoria (where the publicity was concentrated).

What next?

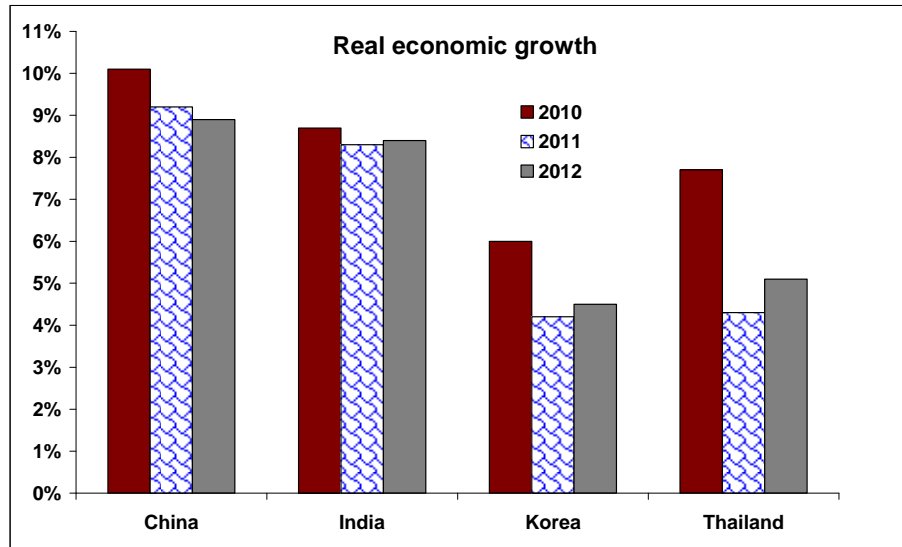
- **This presentation will cover economic prospects in source markets.**
- We will also consider the short term impact of what is happening in the international education sector on the wider Australian economy, and the challenges ahead for a sector long used to great growth.

The source market story

- **Apart from the first six months of the GFC – when it threatened to engulf emerging economies as well as the rich nations of the world – most of Australia’s key source markets have ‘done well’.**
- The four key source nations are slowing at the moment – but they have to slow, as the striking strength seen in economic growth in the likes of China and India in 2010 was not sustainable anyway. ‘Too much stimulus’ had pushed up growth, but pushed up inflation as well
- Korea’s growth is also dropping, but the biggest question mark remains **political stability in Thailand.**

Slowdown – but from sprinting to sustainable

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Yet other problems linger

- **That suggests the underlying economic health of source markets is not the issue. Confidence effects aside when the GFC hit, in many ways it never was.**
- However, there is lingering damage yet to be seen for the Australian international education sector from other effects, including \$A strength, poor publicity and changes to PR paths, as well as questions such as international competition.
- **Besides, this is a sector with a 2- to 3-year 'product cycle'. Even if visas jumped tomorrow, it would take a while for overall numbers to recover.**

Just how bad could it get? 'Tourism bad'

- **Australia's tourism sector charged through the '80s and '90s, and so was ill-prepared to deal with the series of enormous challenges it had to deal with in the past decade.** That sector has seen little growth and much grief for a long time.
- **Could that happen to the international education sector here?** After all, it too has seen great growth for a long time, and has found itself amid a perfect storm now.
- **Hopefully not – the \$A won't stay at parity forever, poor publicity is not permanent, Australia needs good migrants, and emerging economies will grow.**

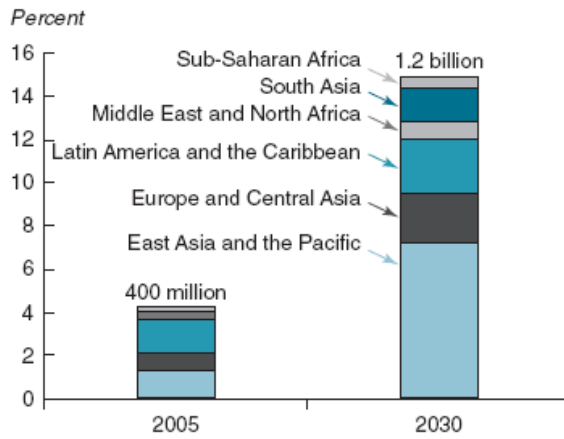
Besides ...

- Australia doesn't just have a comparative advantage in 'rocks and crops'. **We have an advantage in educating the world as well.**
- **Part of that is just luck – English won the global battle of the languages. But part of it is the quality of our offering, including in business-related courses.**
- **And part of it is rising global demand: education demand rises faster than income.**

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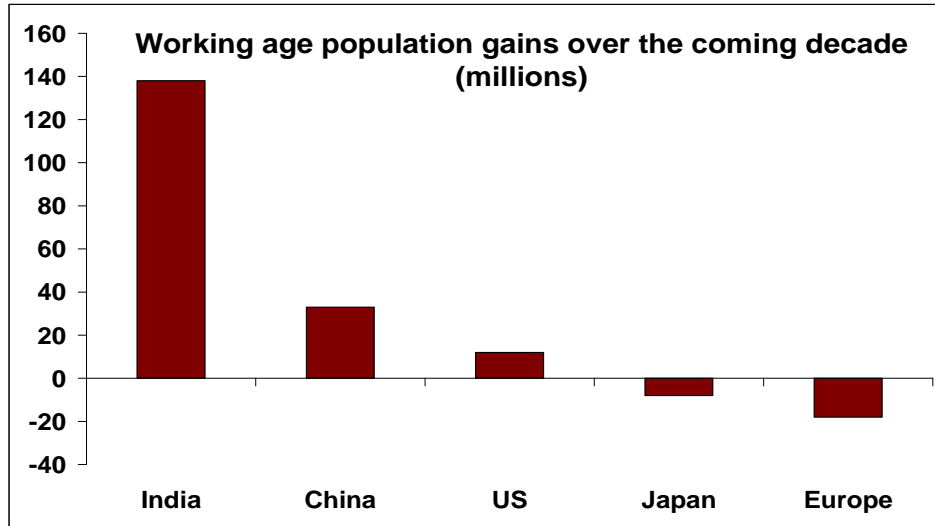
Population in low- and middle-income countries earning \$4,000–\$17,000 per capita (PPP)



Source: World Bank staff calculations.

With population moving – but participation and productivity shifting too

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Indeed, education has multiple benefits

Better education means more skilled workers, which means it helps two of Treasury's 3Ps:

- (1) **Higher productivity** – workers with higher quality education bring a higher level of skills to the workplace;
- (2) **Higher participation** – workers with higher skill levels are more likely to work, and also tend to work for longer by choosing to delay retirement; and
- (3) **Higher employment** – workers with more education are more employable and enjoy lower unemployment rates.

A prosperity driver

That suggests education is an under-appreciated driver of our economic prosperity.

Research shows that each extra year of education adds 8% to incomes.

Australia cannot slipstream China forever – or, at least, not with the same degree of prosperity.

We therefore need to make the longer term investments necessary to ensure Australia's future.

The prosperity equation

To quote Treasury Secretary Ken Henry, Australia cannot: “... generate higher national income without first expanding the nation's supply capacity: one of the 3Ps — population, participation or productivity. Now you might be thinking that that's all pretty obvious. It is, after all, a tautology. But one of my messages to you today is that if you understand what I have just been talking about, then you are a member of a rather small minority group.”

What goes up ...

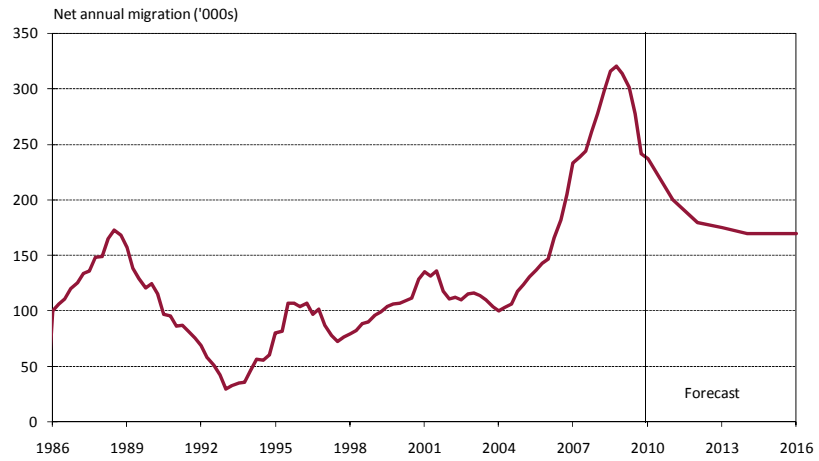
- In mid-2007 Treasury's estimate of Australia's population in 2050 was 27 million, but there was a furore when its updated view of **36 million** was released in late 2009.
- Then PM Rudd said "**I actually believe in a big Australia. I make no apology for that.** I actually think it's good news that our population is growing. Contrast that with many countries in Europe when it's actually heading in the other direction. I think it's good for us, it's good for national security in the long-term, it's good in terms of what we can sustain as a nation."
- **But focus groups were less convinced ...**

... then came down

- **... so the 2010 Federal election saw a bipartisan shift from 'Big Australia' towards 'Sustainable Australia'.**
- As a result of that shift and of related policy decisions affecting the link between studying in Australia and gaining permanent residency here, there has been a notable fall in net international migration to Australia.
- Having peaked at annual rates of 320,000 at one stage in late 2008, net migration to Australia fell to 206,000 through 2010, and there are further falls in prospect.
- **That points to problems for two of the 3Ps.**

Easy come, easy go

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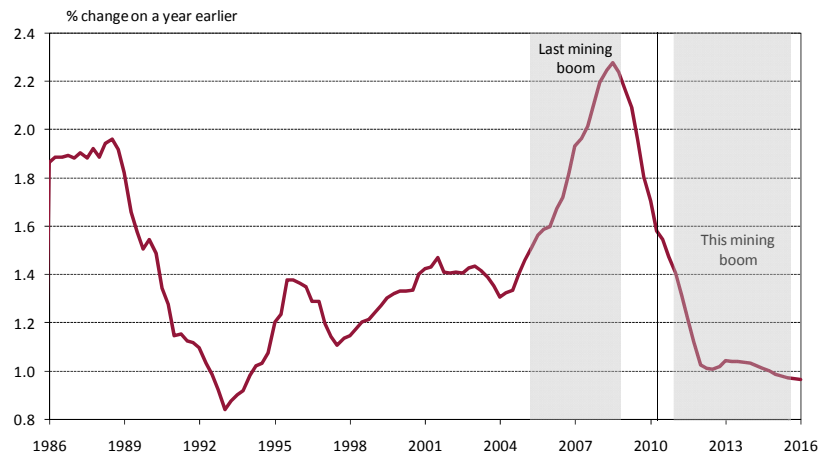


Boomers exit stage left

- **It is not only migrant numbers falling away. The pace of boomer retirement is accelerating – both as it was always going to anyway as that demographic bulge aged, but also as many boomers put off retirement in recent years as their super nest eggs were hit.**
- That means a sharp switch in short term prospects for the supply side of labour markets. Working age population gains hit a high when we needed it, rising to a migrant-fuelled peak in 2008 as the first phase of the resource boom flamed out amid the global financial crisis.

Leading to a lack of 'People Power'

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Lessons from last time

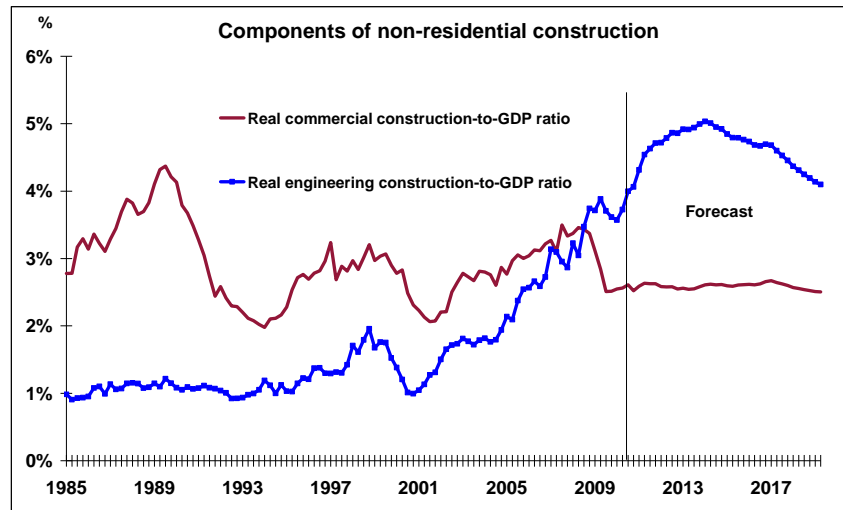
- That means Australia's labour market concerns are about to revolve around **a lack of supply rather than a lack of demand**. The last time that was an issue was in 2006-07 and 2007-08, when Australia was struggling to rise to the challenge of **the first phase of the resources boom**.
- Income and employment were leaping, but so too were skill shortages, while wage and price inflation were rising.
- That had to be doused by higher rates – **the economy's engine was blowing smoke**: demand had risen too fast for supply to cope, and the boom spilt over from growth-related positives into a bunch of price-related negatives.

Implication One: Higher interest rates

- Luckily, there was **a matching boom in migration and working age population** growth kicked up, meaning we added almost 330,000 potential workers through 2008.
- If Australia hadn't done so, then inflation and **interest rates would have had to go even higher still**. Yet unemployment fell to 4.0% in early 2008, skill shortages were worsening fast, and the Reserve Bank had to jack up interest rates amid a scramble to rein inflation back in.
- Hence last time even a surge in numbers of potential workers couldn't insulate us from the damage of 'too little supply': **shortages, higher prices and interest rates**.

Boom baby boom

Boom baby boom



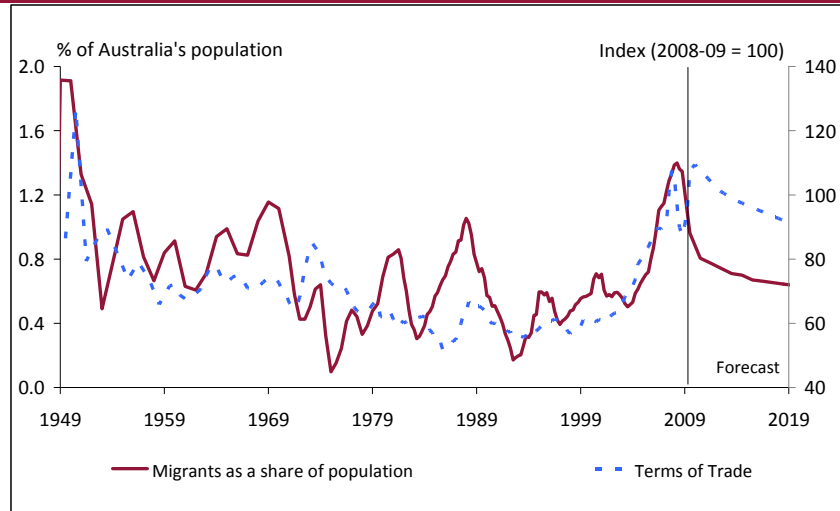
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Bigger boom, less people

- Therein lies the problem. This time around **the dollars are bigger and the job gains are already larger, yet working age population is amid a sharp slowdown.**
- So the bipartisan choice to turn away from 'Big Australia' has left Australia ill-positioned to benefit as fully from the current boom in global commodity prices than we might have done – we'll lack the 'people power' required.
- Employers have to ride out the renewed resources boom with working age population gains slowing from 330,000 potential workers in 2008 to projected gains of 230,000 in 2010, 190,000 in 2011 and just 160,000 in 2012.

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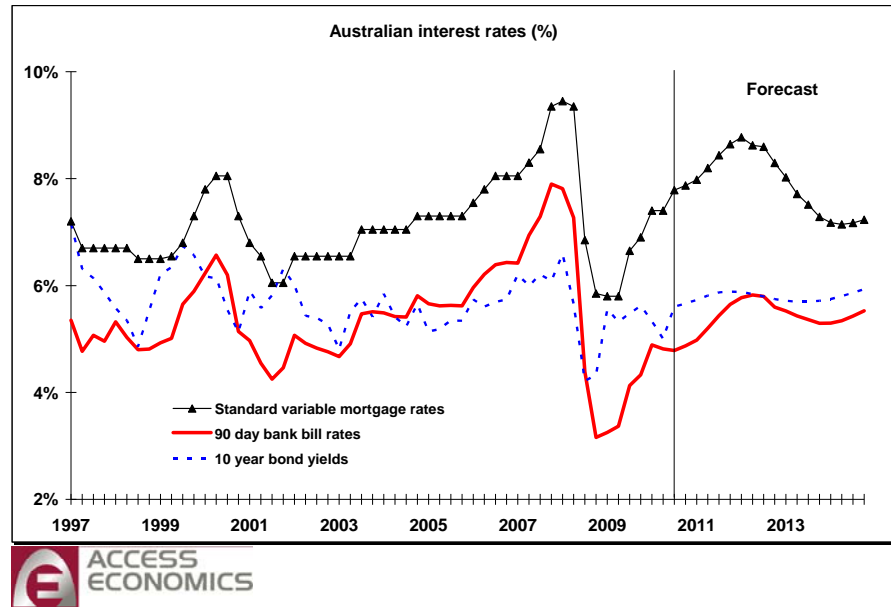


Fail

- **That's not enough workers, and that's a shame. In the short term Australia looks like having too few workers to spread across too many jobs, meaning that some of the benefits of current high commodity prices will be lost in higher interest rates.**
- The deliberate decision to lower the speed limits on economic growth means that Australian families will – other things equal – see less of the commodity boom show up as faster growth in our economy, and more of it as higher interest rates.

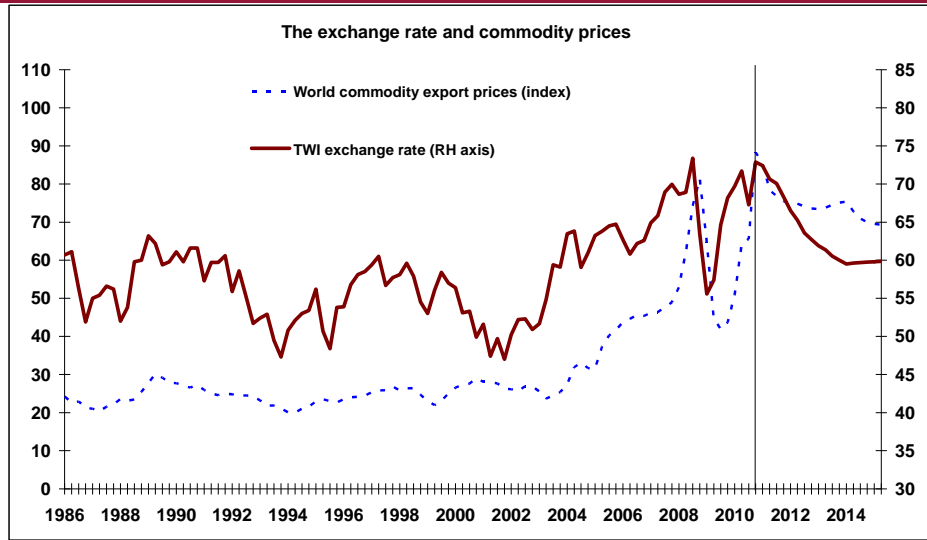
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Big storm, little teacup

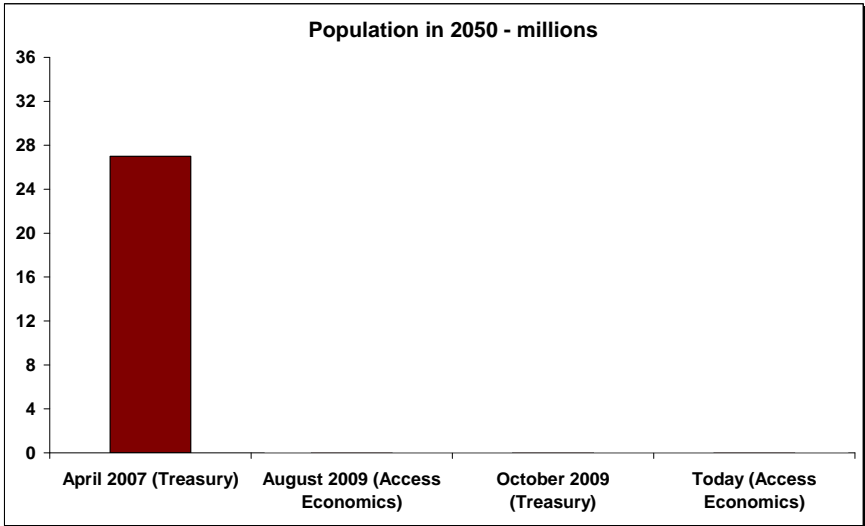
- **'Big Australia' was never quite as big as it seemed.**
- Although the political landscape appears to have shifted sharply, most longer term demographic forecasts have changed little in the past year. That is because the projections made by Access Economics and Federal Treasury ahead of the recent policy changes had always assumed that Australia was seeing a short term peak in its migration flows, driven up by a combination of factors that were never expected to last.

It was going to happen anyway

- Even if the Government hadn't cracked down on students studying in Australia as a better route to obtain permanent residency, the size of the international education sector would have levelled off anyway.
- **More broadly, all the major forecasts were always predicated on migration falling back to something like 160,000-180,000 per year.**
- **Or, in other words, it was a storm in a teacup. All that it managed to do was speed up what had always been expected to be a slowdown in migration anyway.**

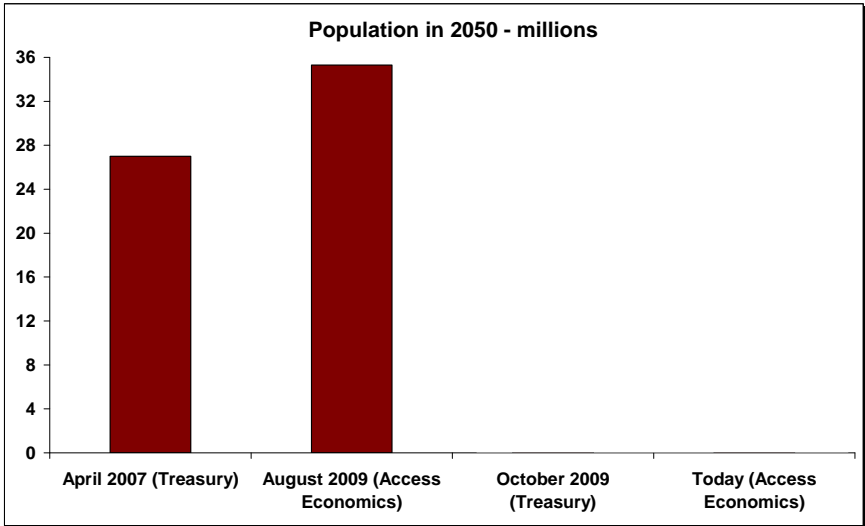
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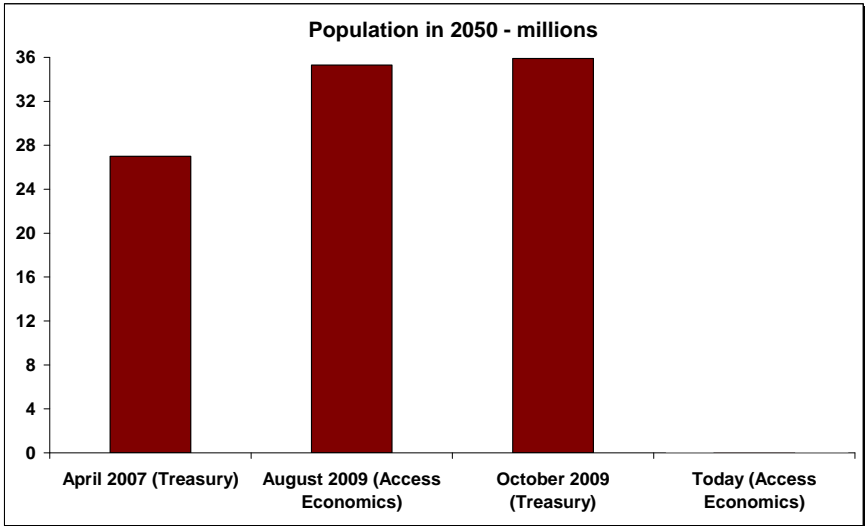
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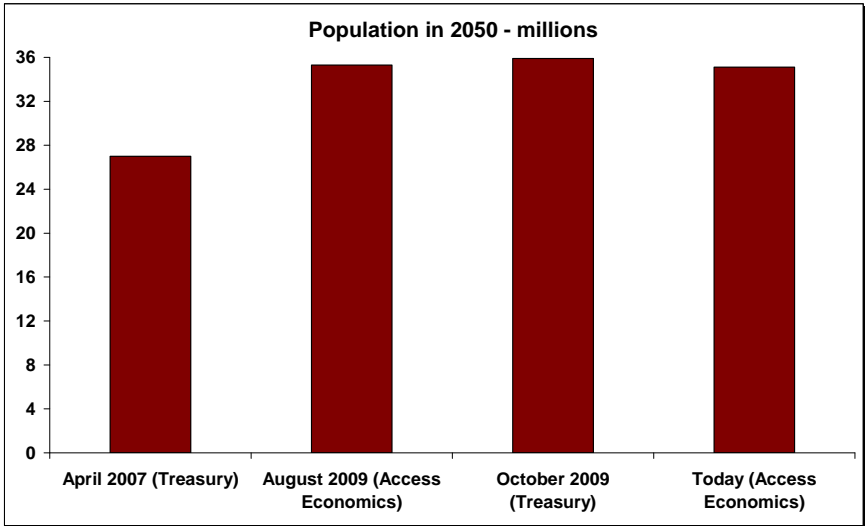
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This too shall pass

- **Yours is a sector amid a perfect storm.**
- Such storms won't last. They never do.
- But current conditions are pretty poor, and the international education sector's 2- to 3-year 'product cycle' almost ensures that there will be deeper pain ahead.
- **Longer term prospects remain bright – mostly because there is decades ahead of excellent growth in emerging economies, and the demand for good education will grow faster still ...**

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