



Financial
Group

Future Demographics – some economic effects

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23 October 2006

Population Growth by 2021 (from 2006)

	%	Number
0-14	2	0.1m
15-64	11	1.5m
65 and over	63	1.7m
Total	16	3.3m

Source: ABS

Population Growth by 2041 (from 2006)

	%	Number
0-14	6	0.2m
15-64	18	2.4m
65 and over	145	4.0m
Total	32	6.6m

Source: ABS

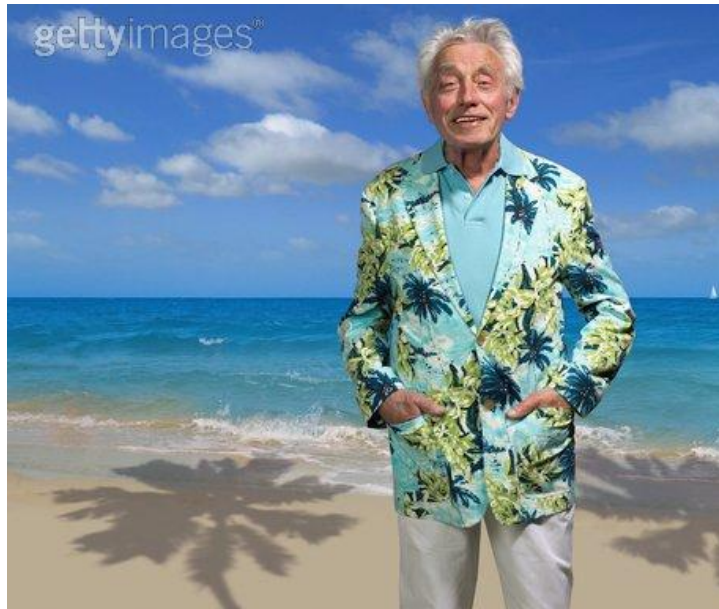
Things I Found in My Research

- Old doesn't mean infirm
- 72% of women, 84% of men aged 80-84 have no difficulty walking at 1.45km per hour

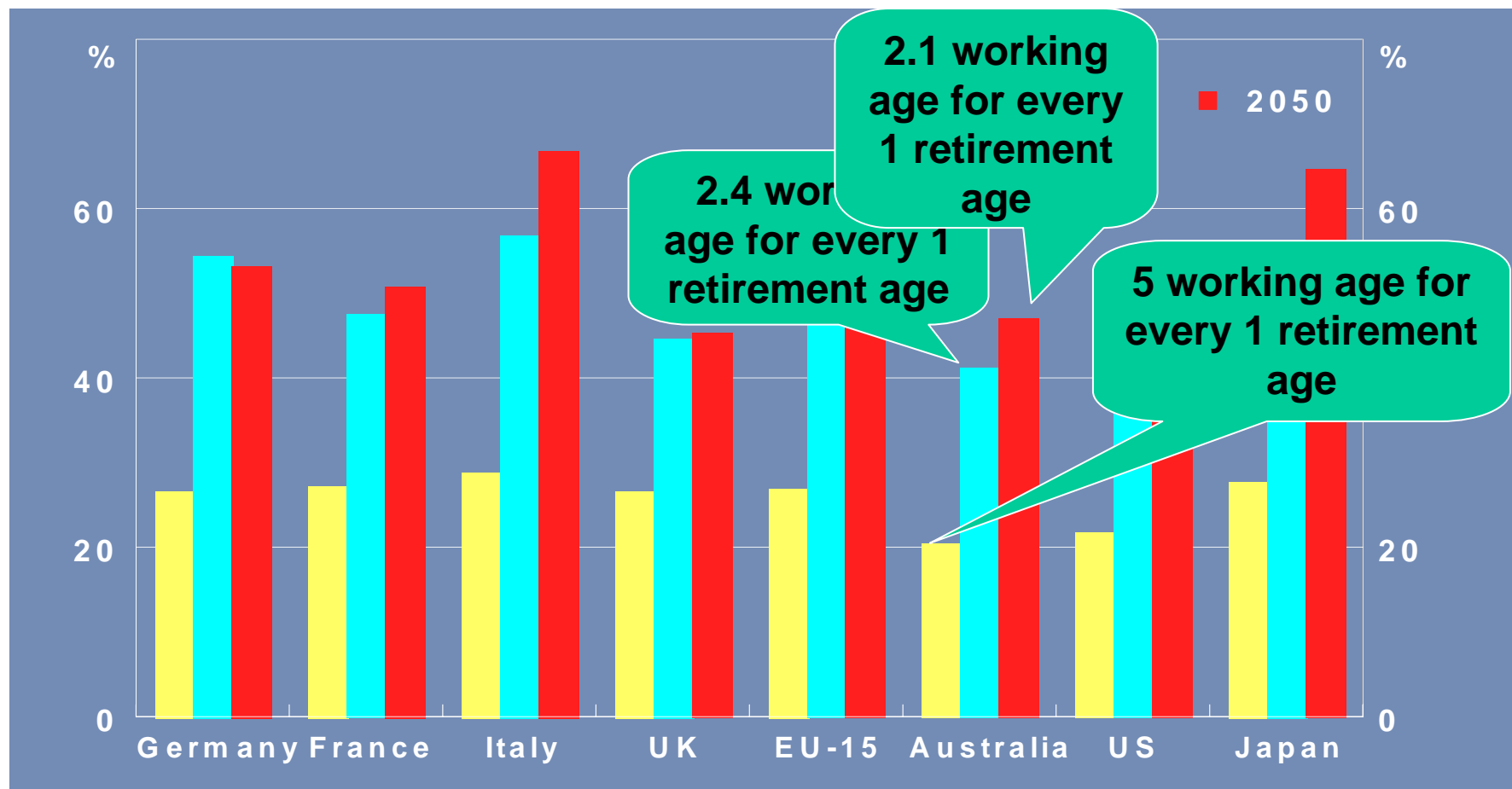


Things I Found in My Research

- “I feel just like a young man...
who’s got something very bad wrong with him.”



Australia has a challenge; others have a crisis



Dependency Ratio

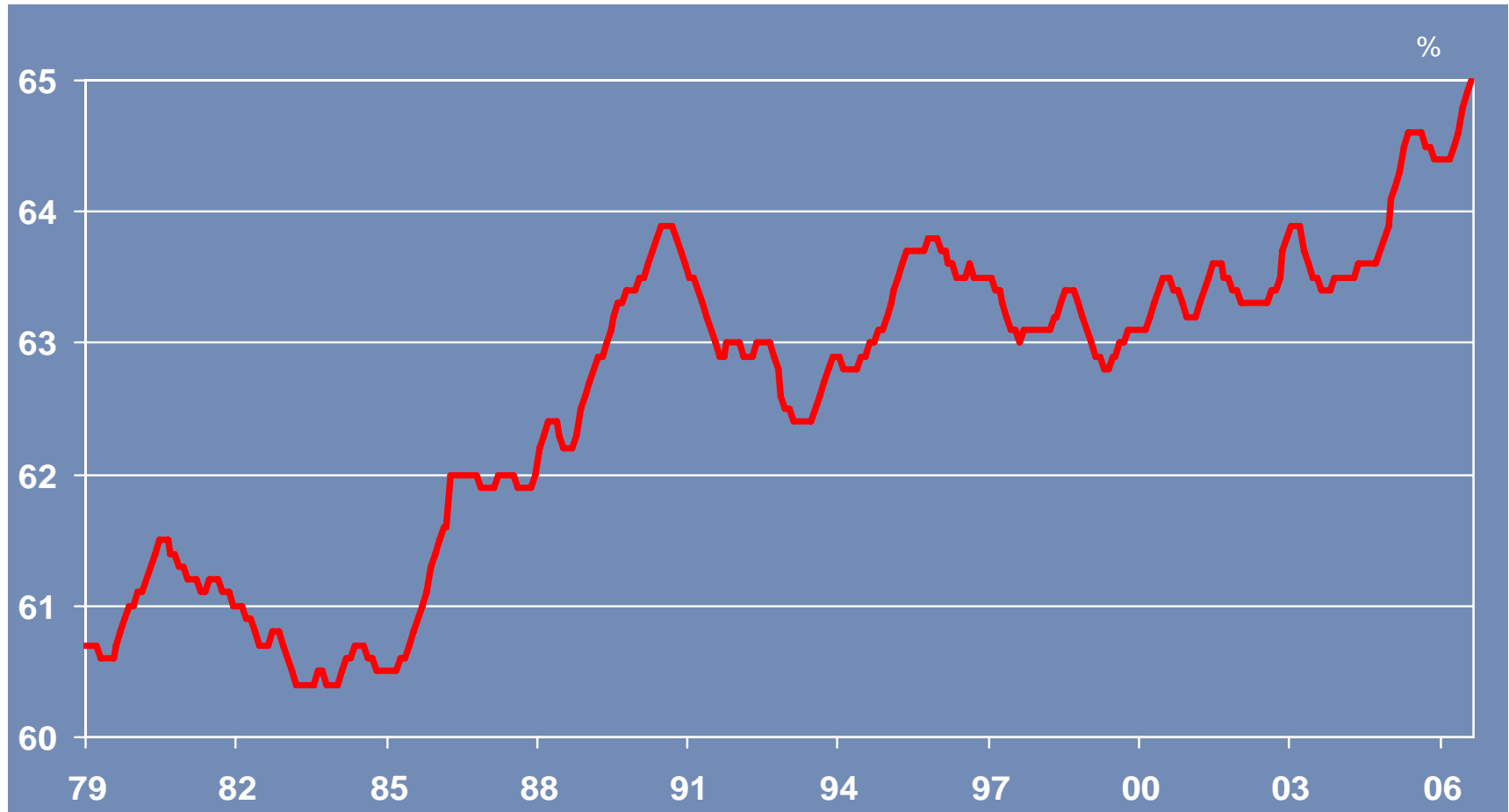
Population aged 65+ (retirement age) as a proportion of the population aged 20 to 64 (working age)

What to Do?

The Three Ps

- Population
 - Birthrate
 - more young dependents
 - Migration
 - they get old too
- Participation

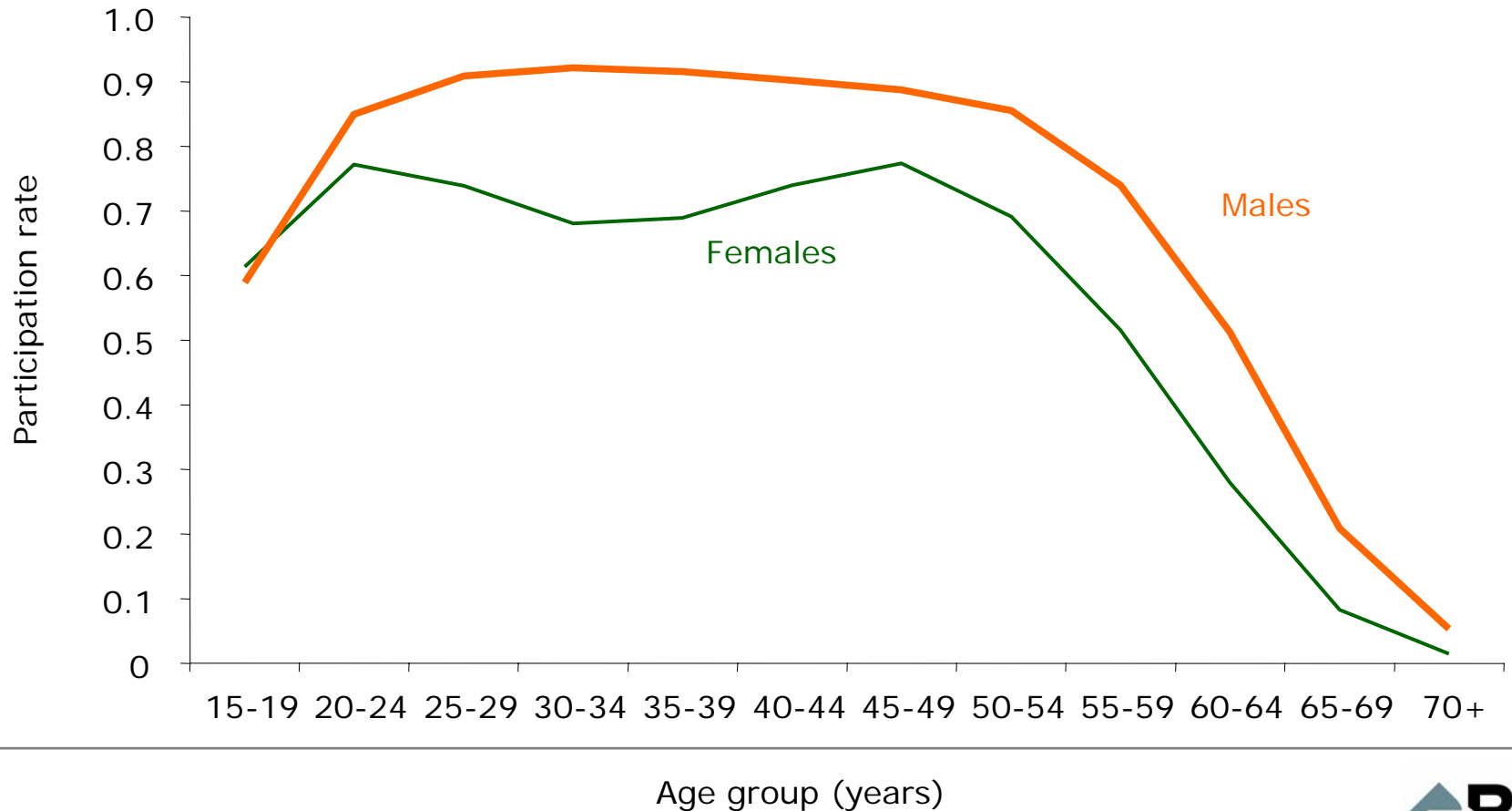
Increasing participation has been an important source of real income growth in the past



Source: ABS

Labour force participation drops substantially with age...

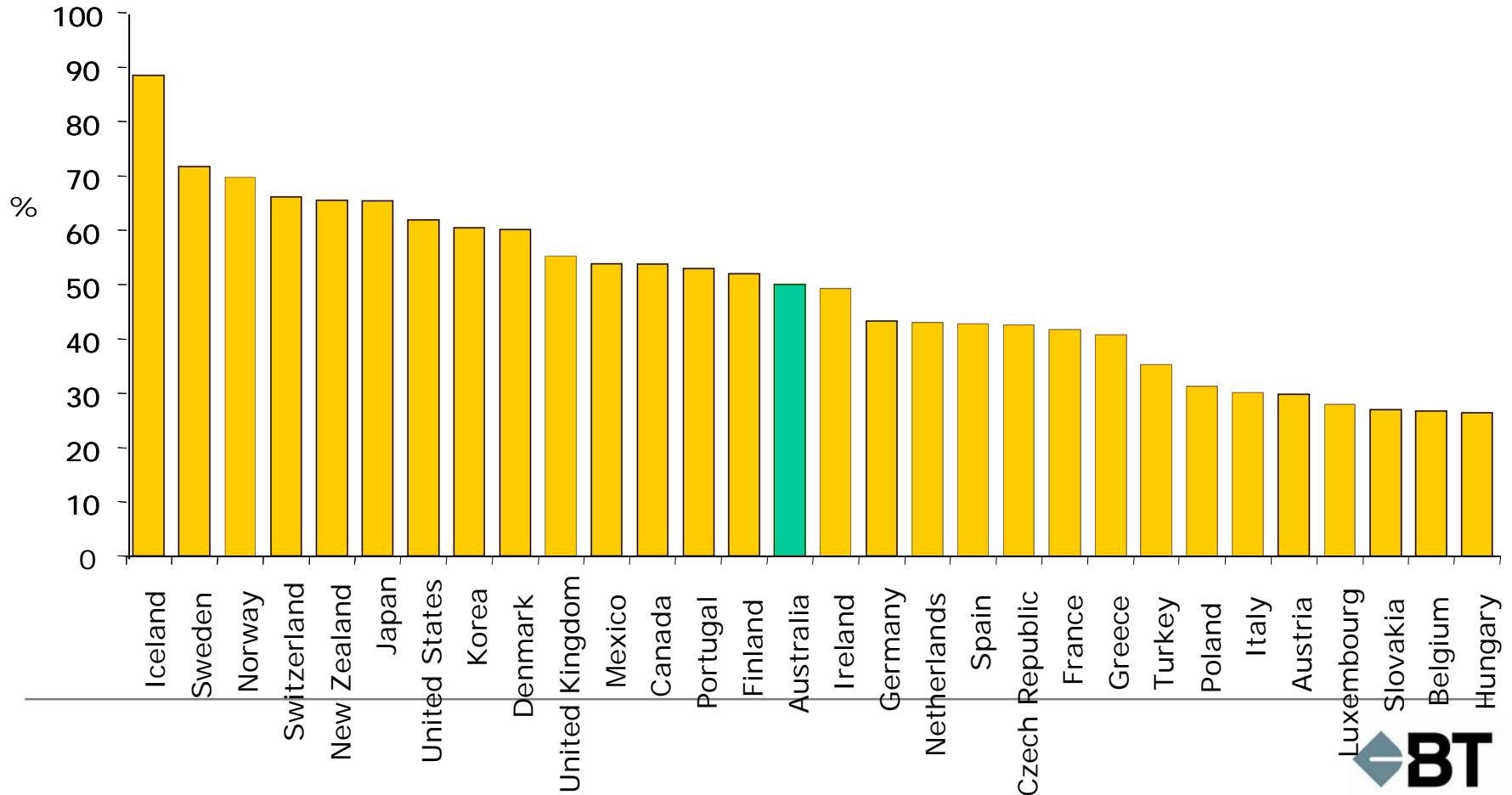
Participation rates by age group, 2003-04



Source: ABS, *The Labour Force, Detailed*.

...more so in Australia than in many other Western countries.

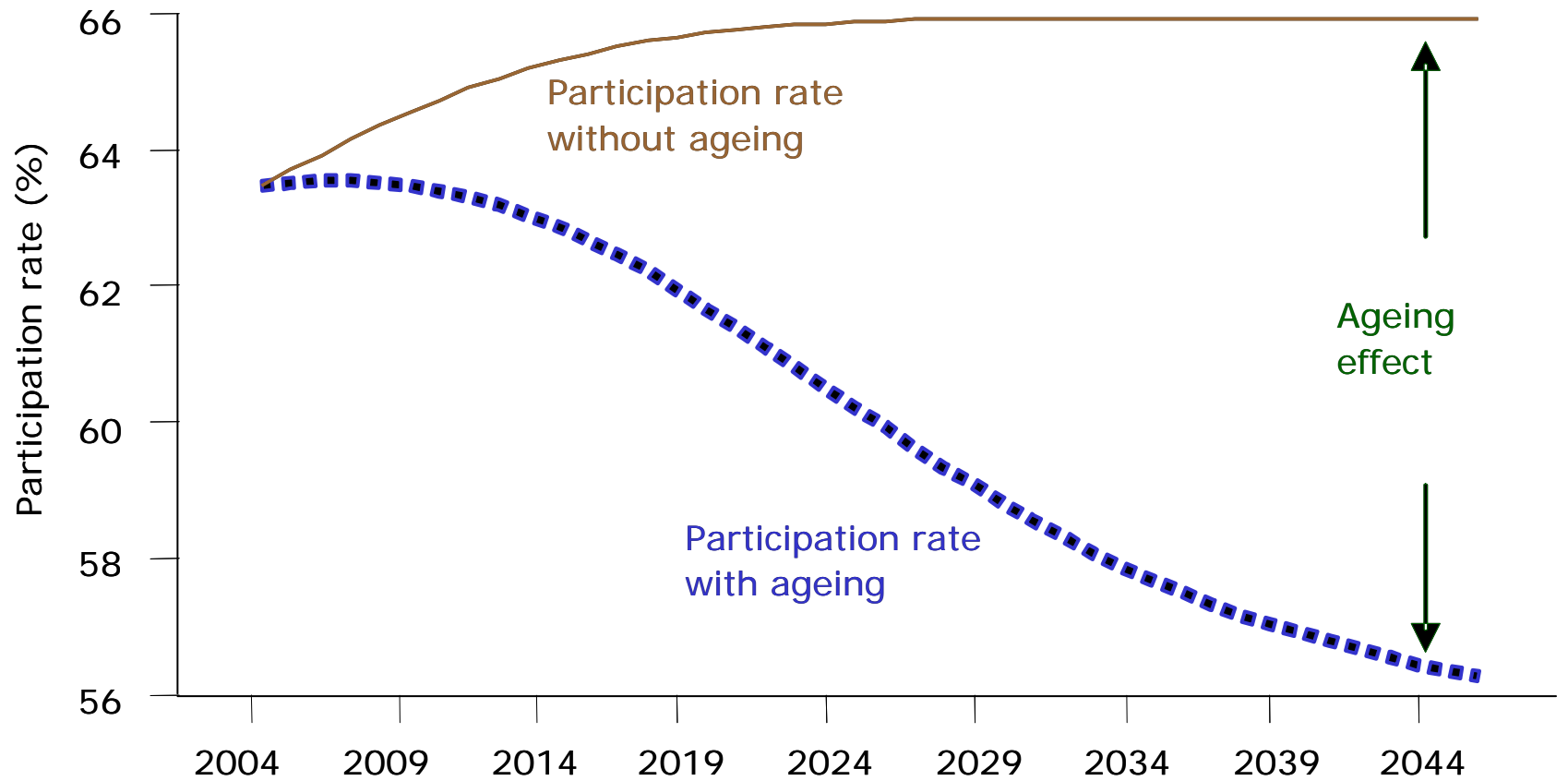
Participation rates by 55-64 year olds, 2002



Source: OECD, *Employment Outlook* 2004.

On unchanged policies, participation will decline by 7 percentage points over the next forty years...

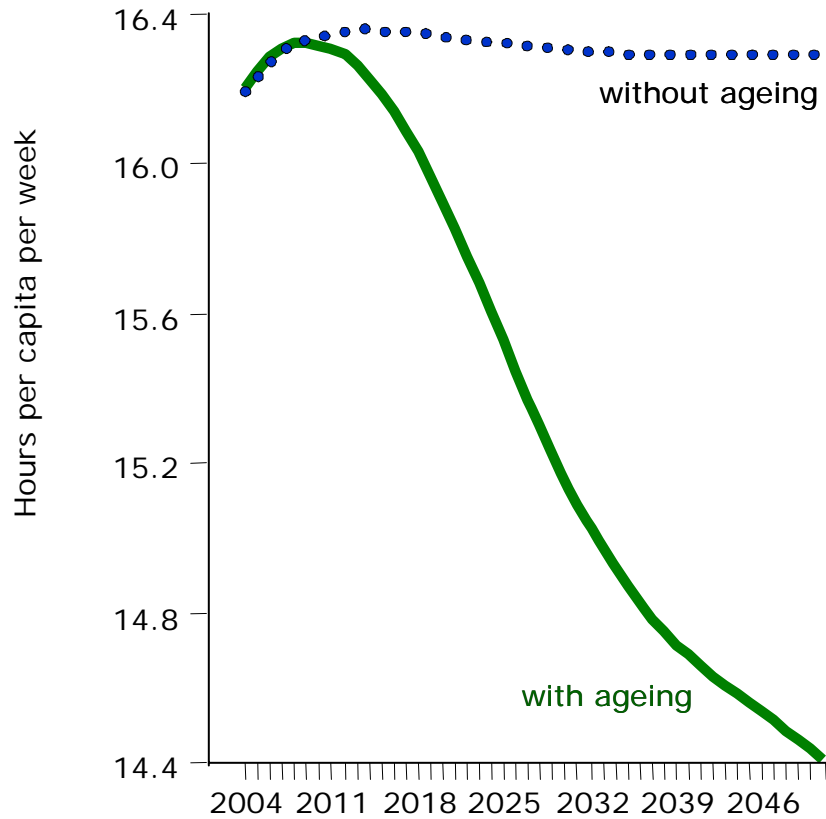
Aggregate labour force participation rate, 2002-03 to 2050-01



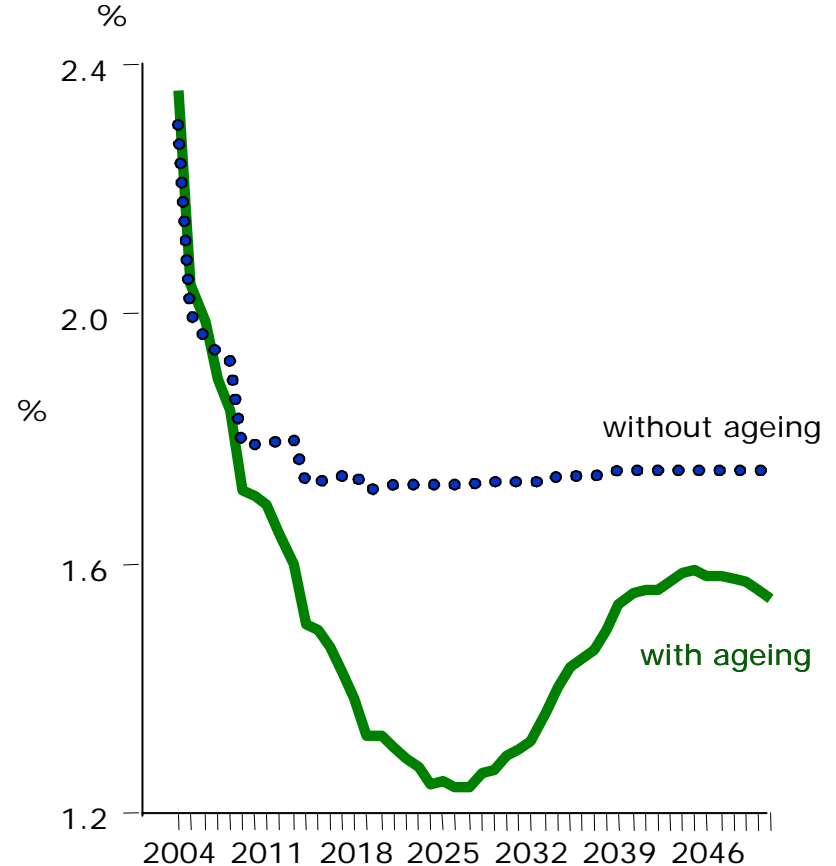
Source: Productivity Commission, *Economic Implications of an Ageing Australia*, March 2005.

...which in turn means that economic growth will slow significantly

Effective labour supply



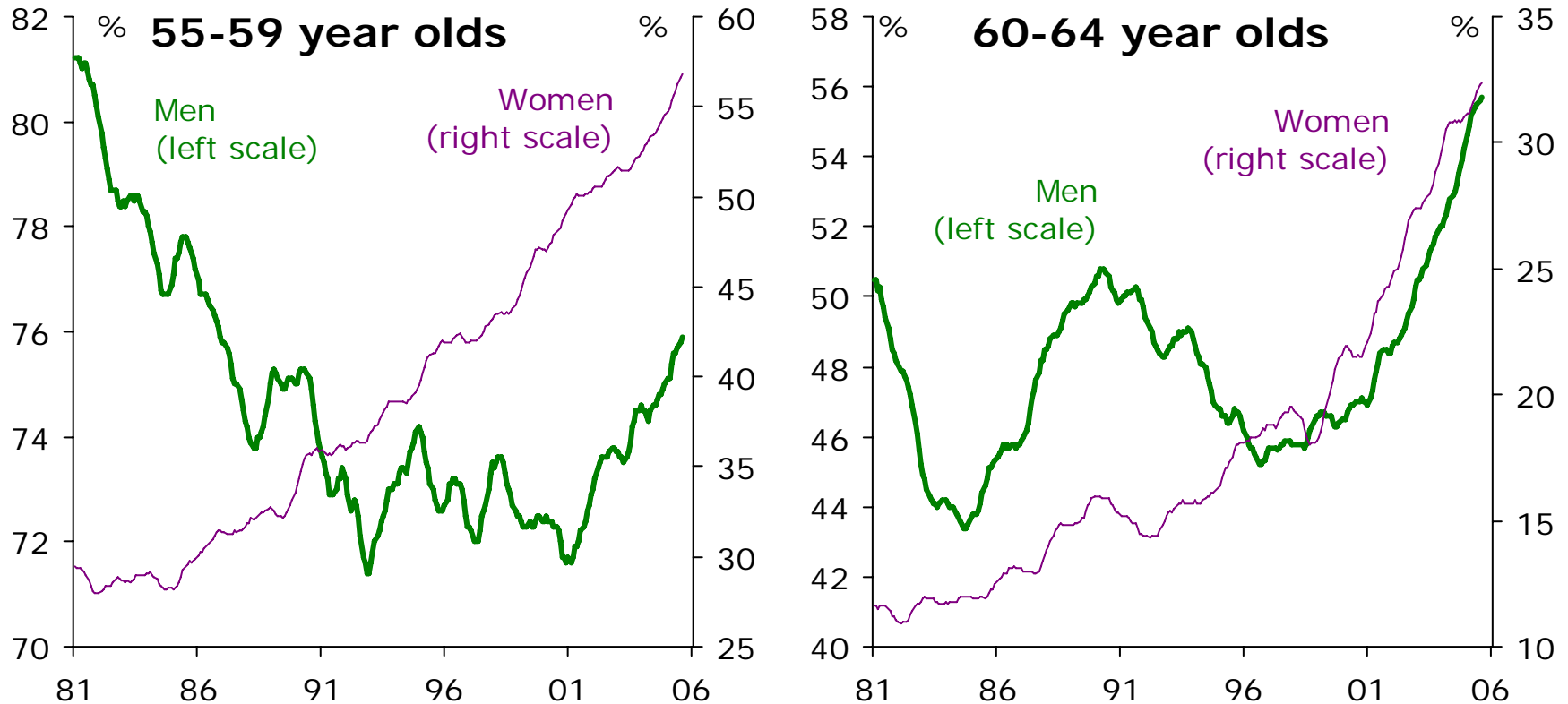
GDP per capita growth



Source: Gary Banks, 'An Ageing Australia – Small Beer or Big Bucks', Adelaide, 29 April 2004.

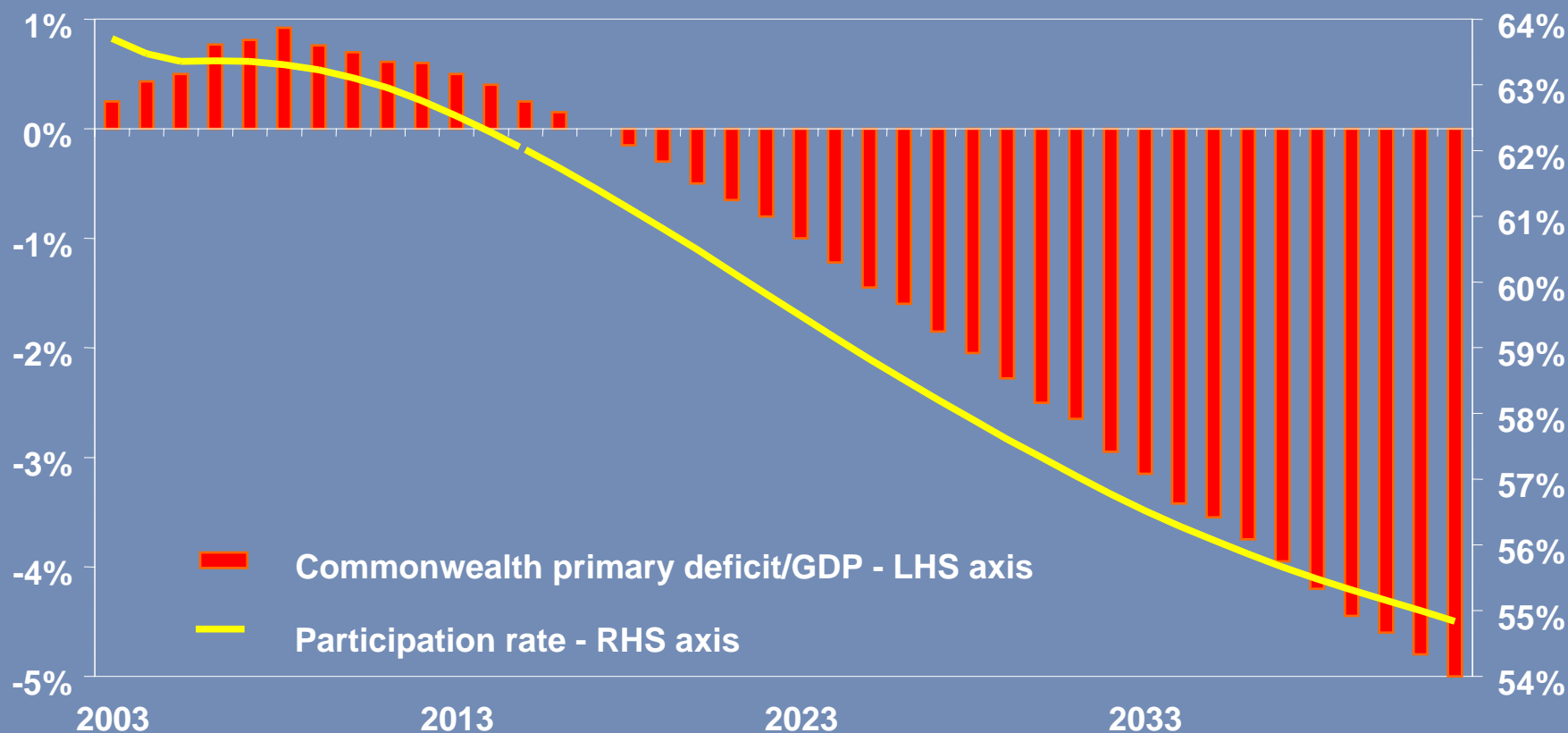
There has been a noticeable rise in labour force participation among older age groups recently

Labour force participation rates by age



Note: data shown as 12-month moving averages.
Source: ABS; Economics@ANZ.

Demographics is Fiscal Destiny



Source: Federal Intergenerational Report, Access Economics

What to Do?

The Three Ps

- Population
 - Birthrate
 - more young dependents
 - Migration
 - they get old too
- Participation
 - women and elderly are target groups
- Productivity
 - Makes a substantial difference
 - No magic pudding, but we should save more

Growth in real GDP and real GDP per person*

Decade	Labour productivity growth	Employment Growth	Real GDP growth **	Real GDP per person growth
1980s	1.2	2.4	3.4	1.8
1990s	2.0	1.3	3.4	2.2
2000s	1.7	1.5	3.1	2.1
2010s	1.75	0.6	2.3	1.5

* Average annual growth rates (per cent).

** 1999-2000 dollars

Source: ABS Cat. No. 5206.0 and 6203.0 and Treasury

Raising productivity growth is the 'best' answer to offsetting the economic impact of ageing

Implications of alternative productivity growth assumptions

Productivity growth of -

	<i>2.05% pa after 2003-04</i>	<i>1.75% pa after 2003-04</i>	<i>1.70% pa after 2003-04</i>	<i>1.45% pa after 2003-04</i>
<i>Average growth in GDP per capita</i>	%	%	%	%
1990s	2.14	2.14	2.14	2.14
2000s	2.13	1.95	1.92	1.77
2010s	1.76	1.46	1.41	1.16
2020s	1.57	1.27	1.22	0.98
2030s	1.80	1.50	1.45	1.20
2040s	1.91	1.61	1.56	1.31
Real GDP per capita in 2044 -45 (\$)	82 036	72 708	71 257	64 417
Increase over real GDP per capita in 2003-04 (\$)	42 712	33 384	31 933	25 093
Additional real GDP 2004 -05 to 2044-45 (\$ billion) relative to baseline	4 185	0	-664	-3 847
Additional GDP 2004 -05 to 2044-45 per mean population relative to baseline (\$)	170 755	0	-27 083	-156 949

Source: Productivity Commission, *Economic Implications of an Ageing Australia*, March 2005.

Projected Commonwealth demographic spending (per cent of GDP)

	2006-07	2021-22	2041-42
Health and aged care	4.8	6.2	9.9
Age and Service Pension	2.8	3.6	4.6
Disability Support Pension	0.7	0.8	0.9
Parenting Payment (single)	0.6	0.6	0.6
Unemployment allowances	0.8	0.6	0.4
Family Tax Benefit (Parts A and B)	1.3	1.1	0.9
Total Payments to individuals	6.3	6.8	7.4
Education	1.8	1.6	1.6
Unfunded Government superannuation	0.5	0.5	0.3
Total	13.3	15.1	19.2

Source: Intergenerational Report 2002

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