

Thematic – International students drove growth in 2023

Summary

The return of international students contributed more than half of growth over 2023. Spending by students is captured as an export, despite most international students being counted in the resident population, meaning consumption is not as weak as it looks at face value. Looking ahead, we expect normalising growth from students to be offset by improving domestic household consumption.

Key points

- While the Q4 national accounts showed household consumption growth slowed to just 0.1% y/y in 2023, this measure excludes international students' consumption, which is counted as an export in GDP.
- With the return of international students, education exports contributed 0.8ppts to GDP growth over 2023. While some of that is fees, around 60% is consumption of goods and services. If we included that local spending, 'total' consumption growth was 1.1% y/y in 2023.
- This will not be news to the RBA, but it does help reconcile the softness in consumption growth with persistence seen in measures of excess demand, such as capacity utilisation in consumer-facing industries.
- Looking forward, the growth in international student numbers should slow and, as a result, growth in student consumption-like spending will ease through 2024. However, we expect this to be offset by stronger household consumption as inflation eases and households benefit from tax cuts and, eventually, cuts in interest rates.

Details

International student numbers have rebounded strongly, driving Australia's population growth since 2022.

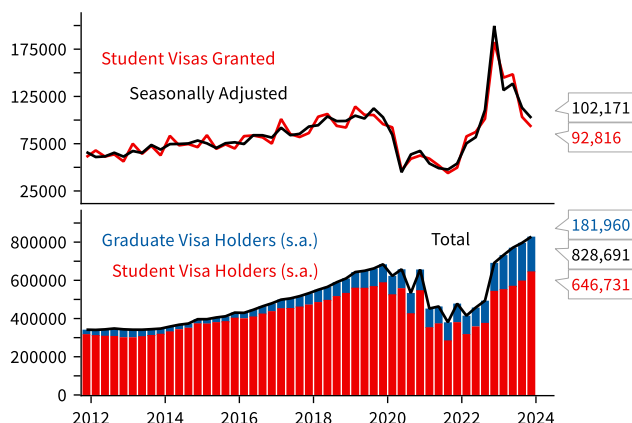
Australia's population has rebounded significantly, reflecting both a surge in overseas arrivals – around 740k in the year to June 2023, well above pre-COVID norms – as well as a lower-than-normal number of overseas departures.

A rebuild of international students in Australia has been a key driver of this growth. The number of student visas granted rose rapidly over the course of 2022, peaking at over 180k in Q4, and the number of student visa holders in the country has risen from below 300k in 2021 to almost 650k in Q4 of 2023.

In addition, temporary changes to graduate working visa arrangements helped drive further increases in the number of graduate visa holders, from less than 100k in 2021 to over 180k by Q4 2024. In total, the rebound in international students equated to around 60% of the net migration over the year to June 2023.

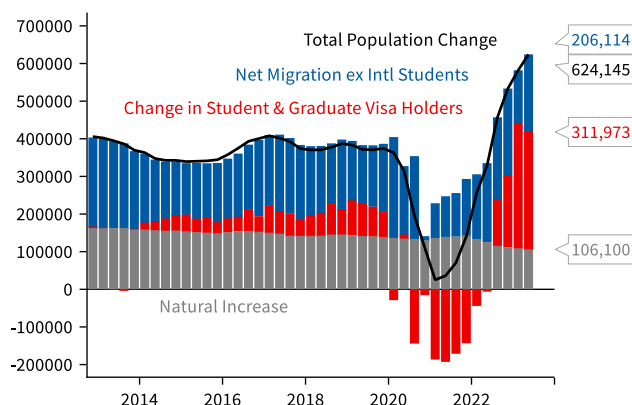
The rebuild of international student numbers has helped normalise labour supply and contributed to historically tight rental markets. But the contribution to aggregate demand is unintuitive in the data, with local spending by students showing up as an export rather than consumption. Below, we explore the role of students in consumer demand over 2023 and implications for the outlook.

Student Visas Granted & Visa Holders



Source: National Australia Bank, Australian Department of Home Affairs, Macrobond

Approx. Student Contribution to Population Growth



Source: National Australia Bank, Australian Bureau of Statistics, Australian Department of Home Affairs, Macrobond, Account in-house

Consumption was flat over 2023, but adding in students, ‘consumption-like’ growth was 1.1%.

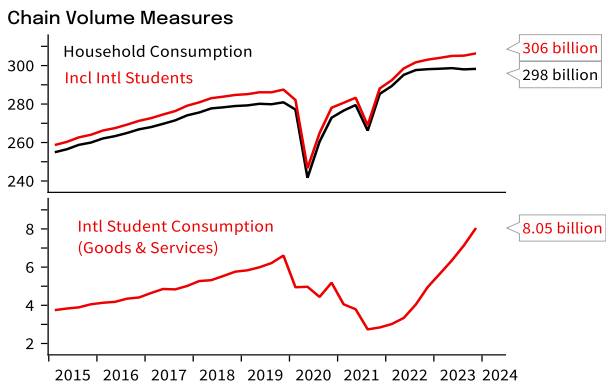
Household consumption growth slowed to just 0.1% over 2023 as inflation, rate rises and a higher tax take weighed on disposable incomes. While this has been a key driver of below trend growth, this measure on its own understates the strength of domestic consumer demand.

Spending by international students is not counted in household consumption expenditure in GDP data. Instead, students’ spending is counted as an education-related services export which comprises both tuition fees (around 40%) and local consumption of goods and services (60%).

When student population growth is stable, this definitional distinction doesn’t matter much, but the rebuild of student numbers means this ‘export’ has grown rapidly. In fact, local spending by international students on goods and services contributed roughly 0.5ppts to GDP growth in 2023, with tuition volumes contributing another 0.3ppts.

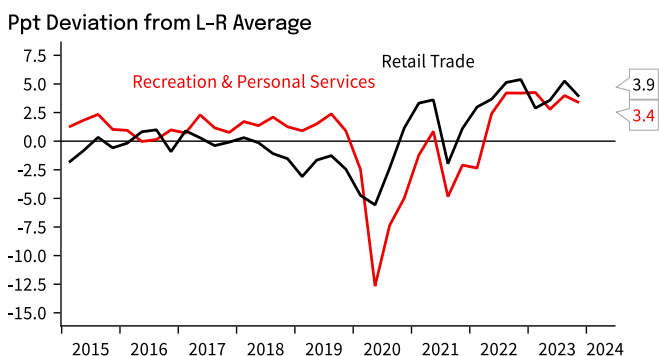
Adding in the non-fee spending of students to household consumption raises ‘total’ consumption growth to 1.1% over 2023. This paints a much stronger picture of domestic demand for goods and services in Australia and helps to explain why businesses in consumer-facing sectors, such as retail and recreation & personal services, have continued to report high levels of capacity utilisation in the NAB Business Survey.

Household vs Intl. Student-Related Consumption



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Capacity Utilisation, NAB Business Survey



Source: National Australia Bank, Macrobond, Account in-house

The treatment of international students matters when estimating per-capita consumption.

Most international students *are included* in the population used by the ABS to calculate GDP per Capita (provided they intend to remain in Australia for 12 months). This means an adjustment is needed to either consumption or population to calculate consumption per capita.

Simply dividing household consumption by total population shows a 2.4% y/y fall in per capita consumption in 2023, but adjusting for the different treatment of resident international students shows a more modest but still substantial 1.5-2% decline.

The boost to the economy from students will normalise, but we expect broader consumption to pick up.

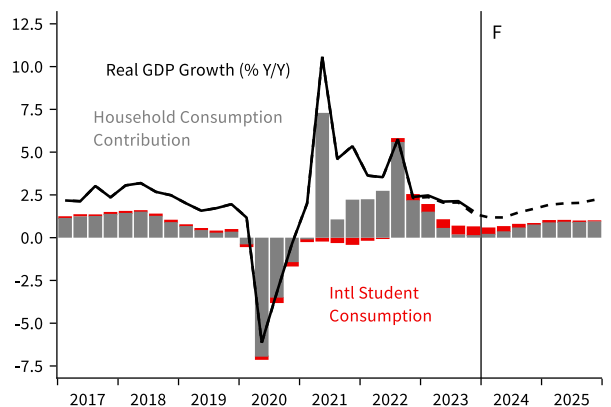
We expect growth in international student numbers to normalise over the year ahead with the number of visas granted now back around (or slightly below) pre-COVID levels. As a result, we expect students’ contribution to GDP growth to slow to around ¼ppt over 2024.

Importantly, however, NAB Economics forecasts a pickup in *household* consumption growth through the second half of 2024, to around 1.6% y/y, as easing inflation, tax cuts, and a waning drag from interest rate increases supports a pickup in real disposable incomes.

That should broadly offset the end of the tailwind to growth from international students and means that, for consumer facing businesses, aggregate consumption-like demand growth may be broadly stable, albeit the demographic composition will shift.

NAB forecasts a period of below trend growth to continue through 2024, before growth picks up towards potential over 2025. Our central case remains that that period of below trend growth will reduce excess demand in the economy to see inflation return sustainably to the target range in a time frame the RBA considers acceptable. This analysis doesn’t change that, though it does paint a more nuanced picture of the drivers of growth over the recent period and for the year ahead.

Contributions to GDP Growth



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

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