

## IPA RESEARCH NOTE

## Australia's Declining Standard of Living

MAY 2024

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- Real growth of gross domestic product per capita has been below trend (measured from 1990-2023) for the last eight consecutive years. This means per capita GDP was \$14,700 lower than it would have been had per capita GDP growth rates remained on the long-term trend over the period.
- At the conclusion of the 2023 calendar year, Australia's per capita economic growth was 3.03 per cent below its long-term trend. This difference amounts to approximately \$2,800 per person.
- To return to trend by the year 2030, real GDP per capita would need to grow at an annual average growth rate of 1.65 per cent each year for the next seven years. This compares with the long-run average annual growth rate of 1.54 per cent since 1990.
- In the decade prior to Covid, real GDP per capita grew by an average annual rate of 1.02 per cent.
- After a dramatic plunge in 2020 from the Covid response, real GDP per capita bounced back strongly in 2021 and 2022. Prior to Covid, the last time real GDP per capita was higher than trend was in 2012, when real GDP per capita grew by 2.1 per cent.
- There have been periods in Australia's economic history of prolonged per capita GDP growth. From the end of the 1990s recession (in 1993) to 2007, real GDP per capita grew by an annual average of 2.56 per cent. The past rates of real GDP per capita growth were attributable to productivity-led economic growth, which freed up the economy through lower taxes, deregulation, and privatisation.

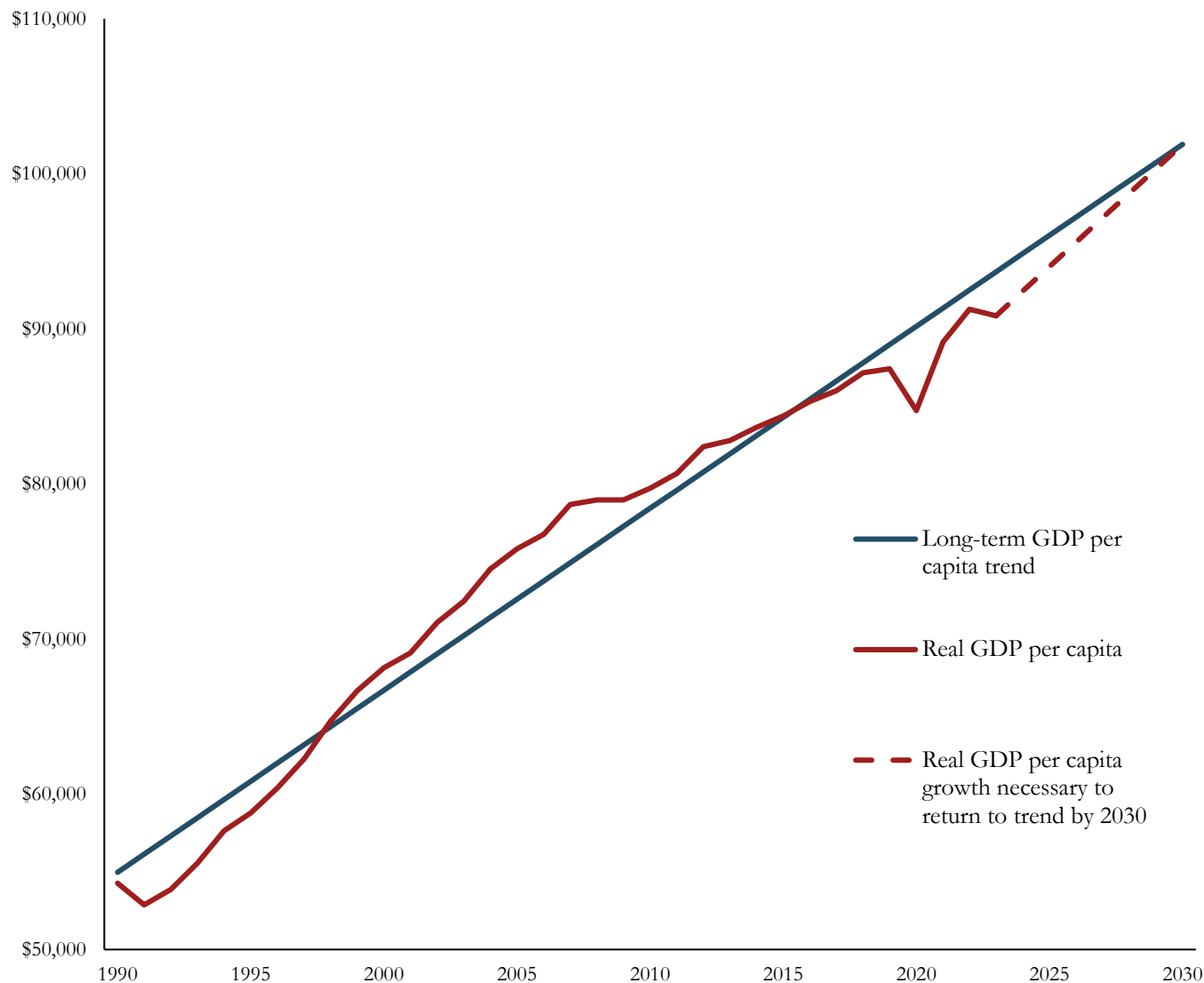
GDP per capita is a better measure of living standards than headline GDP, because the effects of population are accounted for. For the first time since the 1980s, Australia's per capita growth has declined for four consecutive quarters (under -0.1 per cent in the March 2023 quarter; -0.2 per cent in the June 2023 quarter, -0.5 per cent in the September 2023 quarter, and -0.3 in the December 2023 quarter.). A key difference between the current decline and that of the 1980s is that Australia was experiencing a fully-fledged economic recession in the 1980s, with headline GDP also declining for four straight quarters.

Today, the vast majority of economic growth is generated through population growth, which does not deliver faster per capita growth. Previous IPA research estimated that:

- From 1990-1999, population growth contributed approximately one-third of total economic growth.
- From 2000-2009, population growth contributed approximately one-half of total economic growth.
- From 2010-2019, population growth contributed approximately two-thirds of total economic growth.
- Population growth accounted for 85 per cent of total real economic growth in the 2023 financial year, the highest in any normal year on record.<sup>1</sup>

The population growth rate in 2023 of 2.4 per cent was driven by net overseas migration of 528,421—the highest annual level in Australia’s history.<sup>2</sup> At the same time, labour productivity declined by approximately 3.6 per cent—the most severe productivity decline since at least 1980.<sup>3</sup>

**Chart 1: Historic and forecast GDP per capita growth (\$ value)**



Source: IPA, ABS

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## End Notes

1. Kevin You and Morgan Begg, *Addicted to Migration: Australia’s Falling Productivity and the Cost of Relying on Migration for Economic Growth* (Institute of Public Affairs Research Report, December 2023).
2. Australian Bureau of Statistics, *National, state and territory population* (21 March 2024): <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/sep-2023>.
3. Productivity Commission, *Annual productivity bulletin 2024* (PC Productivity Insights, 2024); You and Begg, *Addicted to Migration* (IPA, December 2023).