Western Sydney Economic Outlook

March 2023

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Western Sydney has always been the home of the battler and the setting for struggle street. Traditionally these battles and these struggles have been because there was too little: too little voice, too little opportunity and too little investment.

These days, however, Western Sydney is home to a different struggle and a different battle. These days it's the success of Western Sydney that is the source of its greatest challenges. Western Sydney's recent success has combined with all the pressures of the last three years to create new challenges. These are challenges of growth under constraint (upon constraint upon constraint).

We see these challenges today most viscerally as cost-of-living pressures, housing stress and long and costly commutes.

These challenges aren't unique. They are being experienced in many communities across NSW and Australia more generally. But Western Sydney is feeling these pressures more acutely than almost anywhere else in the country.

To take just one example, Western Sydney has traditionally been the destination of choice for migrants to Australia. Western Sydney has offered affordable housing, access to jobs and well-established multicultural communities that have genuine influence on local decision making.

As a result of these appealing factors, Western Sydney's population has ballooned to almost two million residents as of June 2021[1]. This has been, undoubtedly, one of the keys to success of Western Sydney, with overseas migration bringing a constant stream of young, highly productive and motivated families into the local economy.

With the current Federal Government plan to lift migration by 35,000 people in 2022-23[2] as well as spikes in international student and visitor arrivals, net overseas migration is expected to reach around 300,000 people this financial year[3]. Western Sydney will likely see around 23,000 additional overseas migrants living in the area each year. If these new Australians have an average family size of around 3 then this will result in additional demand for around 8,000 houses in year one and at least 6,000 more every year after that.

Now, 8,000 extra houses may not sound like much in a region housing almost two million residents but, in the current rental market, small changes can make a big difference. According to SQM research, there are currently only around 3,000 vacant rentals in Western Sydney. That is, the additional demand from overseas migration is more than double the stock of vacant rentals in Western Sydney.[4]

The upcoming housing squeeze is just one of the challenges arising from the success of Western Sydney. In this article we'll first give a brief overview of the cost of living pressures generally and then look in detail at two factors that are seriously affecting those in Western Sydney: housing and travel.

But, don't let the upcoming statistics get you down. Housing and travel might be challenges today but that doesn't mean the challenges are here to stay. If the right people, policies and projects are put into place then these challenges can be dealt with. More than that, there is no reason why housing and travel can't become the strengths of the future Western Sydney.

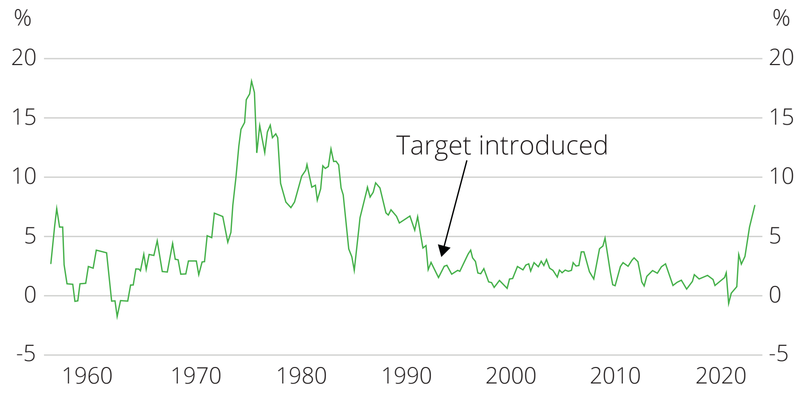
[1] https://www.abs.gov.au/statistics/people/population/regional-population/latest-release
[2] https://www.afr.com/politics/federal/permanent-migration-intake-boosted-to-195-000-20220902-p5betz
[3] https://www.afr.com/policy/economy/immigration-could-surge-to-300-000-in-2022-23-20230116-p5ccus#:~:text=Treasurer%20Jim%20Chalmers%20says%20the,a%20strong%20rebound%20in%20arrivals.
[4] https://sqmresearch.com.au/graph_vacancy.php?region=nsw-Western%20Sydney&type=r&t=1

Western Sydney Economic Outlook | Cost of Living

Cost of Living

It's no secret that the cost of living is growing at a rate faster than we have seen in recent memory. Everyone is feeling it weekly at the grocery store checkout and the petrol pump. This weekly experience can be clearly seen in the data: inflation is well outside the RBA's target range of 2-3% and is at the highest level seen since December 1990.

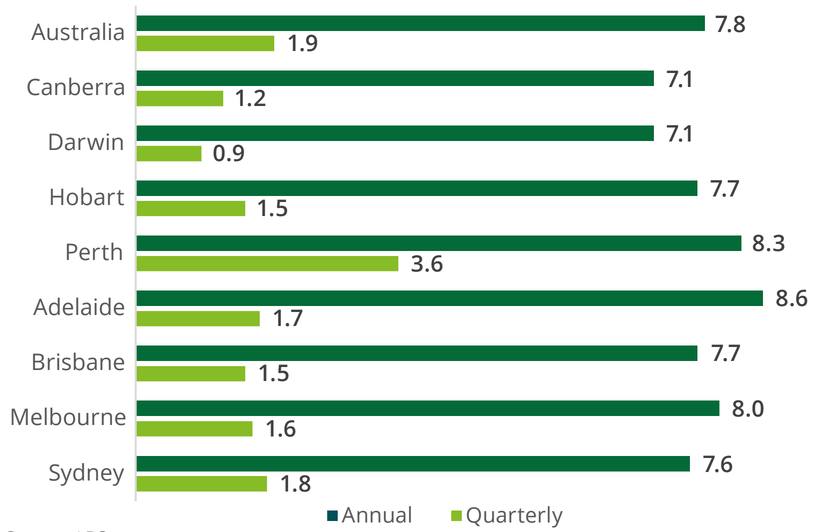
Figure 1: Inflation rate over the long run



Source: RBA, ABS

National figures can, however, hide regional truths. In fact, inflation in Sydney is slightly lower than elsewhere in Australia at the moment. Sydney has experienced 7.6 per cent inflation over the year to December 2022, compared to 7.8 per cent across all capital cities in Australia, as can be seen in figure 2.

Figure 2: CPI inflation by capital city (%), December 2022



Source: ABS

A further zoom and enhance tells a different story. Looking at Sydney as a whole masks the fact that inflation in Western Sydney is high. While the ABS does not produce inflation estimates at a regional level, previous analysis from ANU indicates that the cost of living in Fairfield has risen 0.8 percentage points faster since 2021 than in the CBD (4% vs 3.2%).[5]

Looking at where inflation is coming from can help to explain the difference between Western Sydney and Eastern Sydney. The main culprits are transport and housing. Australia wide, inflation in housing is running at around 11% a year while inflation in transport is running at 8% a year.

[5] Phillips, B and Cukkoo, J: ANU Regional Living Cost Index

Figure 3: CPI Inflation in the year to December 2021 in Australia

Source: ABS

Further analysis shows that inflation in transport and housing are themselves being primarily caused by increases in the cost of fuel and new housing – which until recently, were both running at above 20% a year (at this rate prices would be expected to double before 2026). The cost of fuel and new houses have always been two central issues for Western Sydney.

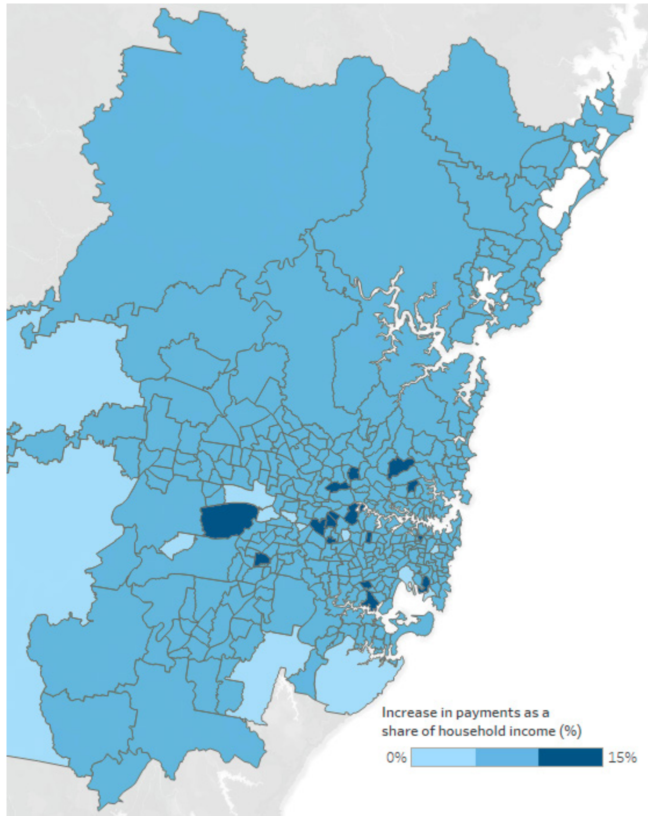
Housing stress

Increases in housing costs are particularly damaging. Housing is the largest expenditure for most households, and when rents or mortgage payments increase, short of moving, there is little a family can do to minimise its impact. While families can drive less in response to petrol price increases, or swap to cheaper brands when food costs rise, every dollar of a rent or mortgage increase comes directly at the expense of other items in the family budget.

Looking first at mortgages, recent rate increases from the RBA have been intended to cool down an economy that appears to be overheating. Although the treatment of interest rate increases is standard practice for a hot economy, the combination of relatively high house prices and below average income means that Western Sydney is likely to be more significantly affected by interest rate increases than the rest of Sydney.

Our analysis indicates that the median mortgage-holding household in Western Sydney, if on a fully-variable rate structured mortgage[6], has seen repayment increases equivalent to 7.6% of their income, enough to push a household that was previously comfortably making their mortgage payments into housing stress.[7] The map below shows that this isn't an isolated phenomenon with much of the West facing significant increases. Some of the most affected areas are in the heart of the west, with Auburn-North, Horsley Park – Kemps Creek and Ashcroft – Busby – Miller all seeing an average increase of more than 10% of income.

Figure 4: Increase in mortgage repayments as a share relative to August 2021, 6% interest rates, % of household income since August 2021



Source: ABS Census, Reserve Bank of Australia, Deloitte Analysis

[6] Note that many households were likely paying more than their scheduled repayments on census night or may have all or some of their mortgage on a fixed rate, and will experience a smaller increase than presented here.

[7] Increases in mortgage payments were calculated assuming 20 years remaining on a mortgage and using the RBA's published average outstanding mortgage rates. In the month of the census, August 2021, this was equal to 3.0%, which is compared to an assumed 6% mortgage rate, reflecting increases in the RBA's cash rate to February 2023.

In aggregate, Western Sydney is affected similarly to the rest of Sydney (at 7.6% for both areas), however lower incomes mean that the impact on household budgets will be significant. The most heavily impacted areas in Western Sydney (those seeing increases of at least 8% of income) have a median income more than $2000/month lower than the most impacted areas elsewhere in Sydney. Homeowners in more affluent suburbs are more likely to have significant savings and spend more on discretionary items that can be reduced without impacting quality of life. In contrast, those on lower incomes, concentrated in Western Sydney, will face more significant trade-offs when hit with these increased payments.

Looking at the rental market, the challenges are just as significant. Since the start of the pandemic, rents have risen by approximately $90/week in both Western and Eastern Sydney. As rents in the East are significantly higher, this represents a larger 19% increase in Western Sydney, compared to 14% in the East. Key to this pattern is that the West did not see a significant fall in rents during the pandemic.

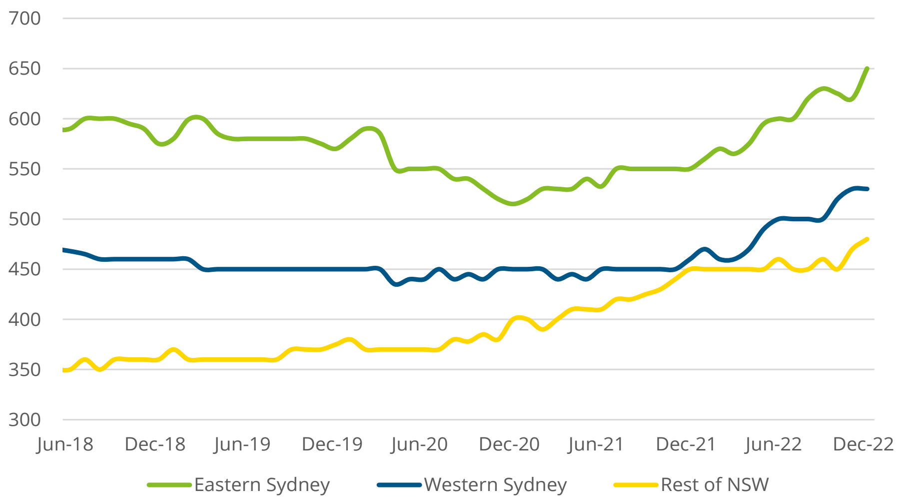
While the return of international migration, constrained supply and an increase in household formation are key factors driving rent increases across Australia, there are more subtle factors also contributing to increases.

Economic modelling suggests that the pandemic and remote work have changed households' priorities when choosing where to live. In 2019, an additional bedroom, on average, added $133 per week to the rent of otherwise similar homes. By 2022, that premium had increased to $174 for each additional bedroom – a 31% increase – as remote workers sought out spare bedrooms to use as home offices.

With fewer people working in the office 5 days a week, households also place less emphasis on being located close to the CBD. Compared to 2019, the premium placed on being located close to the CBD has declined by 10%, albeit with rents rising sharply throughout Sydney. Further, the premium of houses and semi-detached dwellings relative to apartments has increased, as people seek out more space and privacy.

This change represents both an opportunity and a challenge for Western Sydney. The strengths of the region are more attractive than ever, however until supply can catch up to increased demand, affordability pressures will continue to rise. In particular, families are facing new competition for suitable homes, with workers who previously lived in smaller homes seeking additional bedrooms and space.

Figure 5: Monthly median rents ($ per week)



Source: NSW Fair Trading Bond Database, Deloitte Analysis

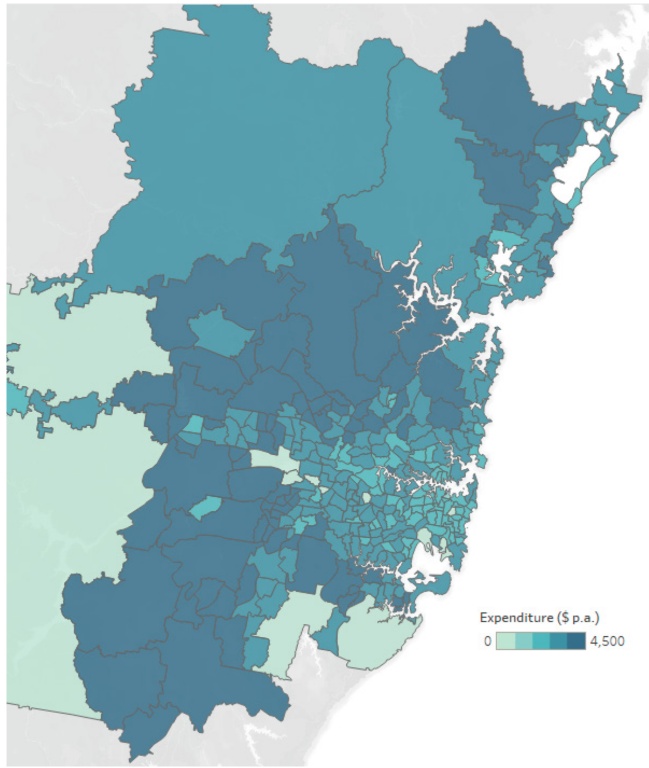
Travel stress

Western Sydney and the car grew up together in the 20th Century and reliance on the car has, in general, turned out to be a strength of the economy of Western Sydney – enabling employment, personal and commercial connections to flexibly span the large distances of the region.

The strong reliance of Western Sydney on the car can be seen in lots of different ways of cutting the data: rates of vehicle ownership per household are higher at about 1.9 in Western Sydney compared to 1.5 in the East; average trip time in a car sits at about 22 minutes in Western Sydney compared to around 20 minutes in the East; the average trip distance in Western Sydney is 36% longer than in the East; and the list can go on.

Perhaps most telling of all is expenditure on vehicle fuel. Remember this was the single highest inflationary item in Australia – sitting at over 30% inflation over the year to June 2022, which has since eased to 13.2% over the year to December 2022. Despite consistently lower fuel prices in the west, the map below shows that almost all of Western Sydney was spending far more than Eastern Sydney on vehicle fuel (and this is back in 2020 when prices at the pump were something like $1.20 a litre).

Figure 6: Annualised household expenditure on fuel, adjusted for inflation to June 2020.



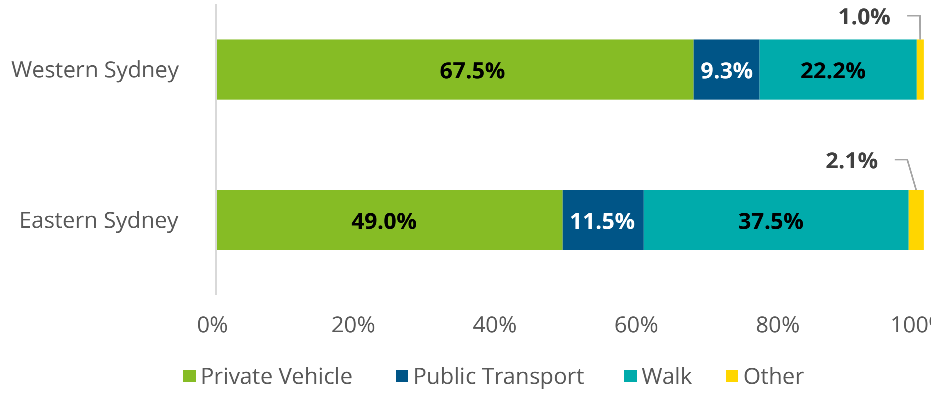
Source: RDA Research geoFusion model (June 2020), based on the Household Expenditure Survey 2015-16 (6540.0) and other ABS Data

Based on recent increases in petrol price, our research indicates that the average driver in Western Sydney is now spending 2.4% more of median household income than their peers in the East on transport and that this gap has grown by 0.4 percentage points over the last year.

Importantly, this problem is made worse by the fact that Western Sydneysiders experiences fewer travel options and generally travel further than their compatriots in Eastern Sydney. In Eastern Sydney, walking and public transport make up a strong share of transport choices while in Western Sydney, transport is predominantly by car.

This lack of choice means that the people of Western Sydney face a double blow of higher and increasing fuel costs combined with a lack of acceptable options for other transport choices.

Figure 7: Distribution of trips by mode of transport, 2019/20



Source: Household Travel Survey

From Growing Pains to Making Gains

The challenges explored above are, indeed, of the moment but they aren't the sort of thing that can be turned around quickly. So, over the longer run, the important question is what can be done to turn this pain into gain?

In our view, both issues of housing and transport require supply side responses. Fundamentally, there needs to be an unlocking of housing supply and flexibility in Western Sydney combined with ongoing investment in private and public transport infrastructure.

In the current economic situation, the challenge with supply side responses is that they can create their own challenges.

Addressing housing affordability is critical for Western Sydney to remain the growth centre of Sydney, NSW and Australia. Improving housing affordability does mean carefully balancing the fact that housing is the main form of wealth and intergenerational savings for many in Western Sydney.

Addressing transport options means ongoing investment in roads, rail, bus and tram. These projects, however, create their own issues in terms of driving up demand for skilled construction workers and soaking up the supply of concrete, steel and aggregates that are needed to build houses.

With prices and interest rates rising, consumers have chosen to tap into the share of their income which would otherwise have been put toward savings, with the national savings rate falling to pre-COVID levels in the September quarter of 2022. Whilst this has provided temporary relief to the retail sector, this is only a short-term solution which has already begun to constrain economic activity. Retail turnover has fallen by 3.9% in December Quarter 2022, despite being up 7.5% compared to December Quarter 2021.

The effects have been felt most by households and businesses in lower income areas with Western Sydney being home to over 168,000 small business employing up to 19 people in 2020, more than four times the rest of Sydney. The reliance of Western Sydney's economy on small retail businesses, paired with the impact of a rising cost of living on household budgets in the region, is both the driver of its underlying strength and also a key risk to be managed during downturns.

Achieving this fine balance in Western Sydney and continuing in the right direction will require the joint effort of business, Government and those like Deloitte who work between the two.

Western Sydney Ready Reference

Table 1: Key economic forecasts

	Western Sydney			Rest of Sydney		
	2022	2025	2030	2022	2025	2030
	Historical	Forecast	Forecast	Historical	Forecast	Forecast
Regional GDP ($b)	89.5	97.8	115.0	193.9	216.1	258.5
per employee ($)	90,476	91,390	97,429	115,456	120,944	134,718
per capita ($)	44,982	47,083	51,717	63,707	68,680	77,872
Employment (000s)	990*	1,070	1,180	1,679*	1,787	1,919
Population (000s)	1,990*	2,078	2,223	3,044*	3,147	3,319

* 2022 population and employment totals are as at June 2021

Source: Deloitte estimates based on DAE Business Outlook, ABS Regional Population, NSC SALM

Table 2: Key Census statistics

	Western Sydney		Rest of Sydney	
	2016	2021	2016	2021
Number of people who speak a language other than English at home	750,125	933,457	1,340,772	1,415,267
	43.0%	46.6%	56.8%	55.6%
Number of people who were born overseas	626,354	776,473	1,098,986	1,188,881
	38.1%	40.7%	42.7%	43.1%
Number of people with at least a bachelor's degree	288,539	416,276	785,075	906,276
	23.0%	28.5%	37.9%	43.3%
Number of households who spend more than 30% of their income on mortgage repayments	46,622	27,619	53,111	28,068
	24.6%	19.1%	24.4%	18.9%
Number of people in the labour force who are employed	790,025	878,781	1,343,077	1,315,921
	93.3%	94.6%	94.4%	95.2%
Number of females in the labour force who are employed	364,083	417,210	636,172	638,656
	92.9%	94.7%	94.4%	95.6%

Source: Deloitte estimated based on ABS Census data

Table 3: Key transport statistics

	Western Sydney				Rest of Sydney			
	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Number of trips made by car (000s)	5,125	5,204	5,138	5,266	6,909	7,184	7,319	7,253
	70%	70%	69%	69%	51%	51%	51%	49%
Number of trips made by public transport (000s)	596	617	648	672	1,489	1,509	1,556	1,700
	8%	8%	9%	9%	11%	11%	11%	12%
Number of trips made by walking (000s)	1,553	1,514	1,546	1,586	1,553	1,514	1,546	1,586
		20%	21%	21%	11%	11%	11%	11%

Source: Deloitte estimates based on ABS Household Travel Survey data

Table 4: Key economic statistics by Western Sydney LGA, 2022

Local Government Area (LGA)	Regional GDP ($b)	Regional GDP per employee ($)	Regional GDP per capita ($)	Employment* (000s)	Population* (000s)
Western Sydney					
Blue Mountains	1.7	43,824	20,957	38.1	79.6
Camden	3.3	53,683	31,296	61.9	106.1
Campbelltown	5.6	69,240	32,404	80.5	172.0
Hawkesbury	3.9	110,025	57,846	35.7	68.0
Penrith	8.4	75,124	38,773	111.3	215.6
Fairfield	7.0	84,648	32,902	83.2	214.1
Liverpool	8.2	75,580	35,012	109.0	235.2
Wollondilly	10.3	354,396	187,763	28.9	54.6
Blacktown	14.2	72,029	35,944	196.5	393.8
Parramatta	18.3	127,478	69,422	143.9	264.3
The Hills Shire	8.6	85,890	46,175	100.5	186.9
Western Sydney	**89.5**	**90,476**	**44,982**	**990**	**1,990**
Rest of Sydney	**193.9**	**115,456**	**63,707**	**1,679**	**3,044**
Greater Sydney	**283.4**	**106,194**	**56,303**	**2,669**	**5,034**

* Population and employment totals are as at June 2021

Source: Deloitte estimates based on DAE Business Outlook, ABS Regional Population, NSC SALM

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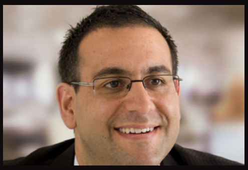

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