

Overview

Towards 2061 – planning for the future

Changes expected in the NSW population and economy

New South Wales will change significantly over the next 40 years. Our population will grow by 40 per cent, with people older on average than today, as the fertility rate declines and life expectancy increases.

Our economy will evolve, with new opportunities created by structural shifts including advances in technology, the transition towards net zero greenhouse gas emissions, and changing global dynamics.

The prosperity of New South Wales over the next 40 years will depend on three factors:

- The size and age structure of our **population**.
- The degree of workforce **participation** – the proportion of people actively engaged in or looking for work.
- The level of **productivity** – how efficiently we produce goods and services given resources and effort invested.

The NSW population is projected to grow by 0.8 per cent a year on average to 2061. This is slower than the 1.0 per cent long-run projected annual growth rate in the 2016 NSW Intergenerational Report to 2055-56. By 2061, we project there will be 11.5 million people living in New South Wales, 3.3 million more than in 2020. Natural increases in population (births minus deaths) will account for 40 per cent of this growth. The other 60 per cent of population growth will come from people moving to New South Wales.

Short-term migration losses and lower fertility rates resulting from the COVID-19 pandemic will have ongoing impacts on the NSW population over the long term. By 2061, the NSW population will be older and around half a million people smaller than it would have been without COVID-19.

Trends in natural population growth will see the NSW population age over the next 40 years. Advances in health care and medicine will see people living longer into the future and living more years in good health. Life expectancy at birth is projected to reach 91.7 years of age for women and 89.4 for men by 2061, compared to 85.9 for women and 82.2 for men in 2020. The NSW fertility rate is expected to decline from 1.67 currently to 1.63 by 2032, reflecting the trend towards forming families later in life and having fewer children overall.

NSW population



8.2M
2020

11.5M
2061

Additional 3.3 million people in 2061, made up of



40%

from natural increase



60%

from net migration

Life expectancy

Female



85.9 **91.7**
2020 2061

Male



82.2 **89.4**
2020 2061

One third of the NSW population lives in regional areas, where population growth will be slower and ageing faster than in metropolitan locations. The population in regional New South Wales is projected to grow at 0.4 per cent a year on average over the next 20 years, compared to 1.5 per cent for metropolitan locations (Sydney, Newcastle and Wollongong).

We need continued productivity growth to drive our economy

By 2060-61, the NSW economy is projected to reach \$1.4 trillion (2019-20 dollars). This is more than twice the size of New South Wales' present economy.

Overall, people in New South Wales will enjoy higher incomes over the next 40 years, with average full-time real wages projected to grow from \$86,000 in 2018-19 to \$139,000 by 2060-61, measured in today's dollars.

This growth, however, is not guaranteed. A number of risks, including those associated with our ageing population, climate change, geopolitical shifts, and technological changes increase the uncertainty of our projections relative to five years ago when the 2016 NSW Intergenerational Report was published.

One thing we can be certain of is that improved productivity drives our prosperity. Productivity measures how efficiently we produce goods and services given the resources and effort invested. Over the long run, productivity is the key driver of wages growth. Over the next 40 years, productivity is projected to become the biggest contributor to our economic growth.

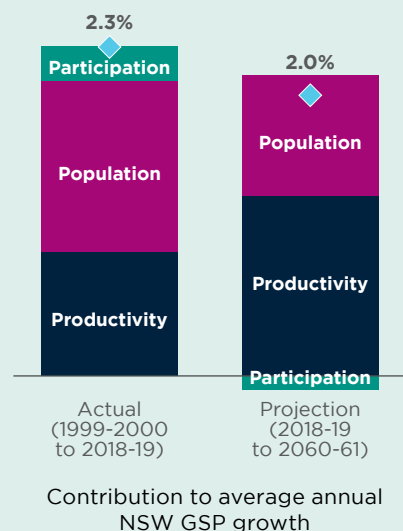
Productivity is expected to grow by 1.2 per cent per year over the next 40 years in line with the average growth rate of the past 30 years. This is a downward revision from the 2016 NSW Intergenerational Report, reflecting continued softness in productivity growth over the past five years. Achieving even 1.2 per cent productivity growth would therefore be an improvement on the average annual growth rate achieved since 1999-2000.

Our response to improving productivity growth matters. If we could increase growth in labour productivity by 0.1 percentage points to 1.3 per cent per year over the next 40 years, for example through modernising the tax system or improving educational outcomes, the NSW economy would be \$53 billion larger by 2060-61, measured in today's dollars. This is the equivalent of \$11,000 more annual income per household.

The participation rate, which measures the proportion of people aged 15 years and over seeking or in employment, is projected to decline over the next 40 years from 65.3 per cent in 2018-19 to 61.6 per cent by 2060-61 as our population ages. This decline will occur despite increasing participation amongst working age women and those over the traditional retirement age of 65 years. For example, participation amongst women aged 15-64 years is projected to grow from 73.1 per cent in 2018-19 to 75.8 per cent in 2060-61. Participation amongst those aged over 65 is also projected to increase from 15.0 per cent to 19.4 per cent over the same period.

“Over the next 40 years, productivity is projected to become the biggest contributor to our economic growth”

Drivers of NSW economic growth



Participation rate projection for NSW



65.3%
2018-19

61.6%
2060-61



Although women's participation is projected to increase, it is nonetheless expected to remain below that of men. If women's participation increased to be the same as men's over the next 20 years, the economy in 2060-61 would be 8 per cent larger (measured in today's dollars), the equivalent of \$22,000 more annual income per household.

An ageing population also means that there are more non-working people for each working person.

The aged dependency ratio measures the ratio of those aged 65 and older to those of traditional working age (15 to 64). This ratio is projected to increase from 26 per cent today to 42 per cent in 2061. This means that by 2061 there will be 2.4 people of traditional working age to support each person aged 65 and over. This is a significant decline from today's ratio of 3.9 people.

This shift underscores the importance of migration to the NSW economy. People coming to the State from overseas are typically younger and of prime working age. Having more people migrating to live in New South Wales acts as a balance to support rising costs and health care needs of people as they age.

The NSW economy will change over the next 40 years, with advances in technology supporting a more productive economy

Having in-demand skills will be especially critical in attracting the industries of the future. We project a relative increase in the proportion of jobs utilising social, cognitive, creative and analytical skills and a relative decline in the proportion of jobs which utilise more routine and manual skills (Box 1).

Our schools, TAFEs and universities must be able to equip young people entering the workforce, as well as workers seeking to retrain and develop the skills needed to drive higher productivity and wages. This issue of national significance will require State-Commonwealth collaboration.

We also model some of the economic and fiscal risks of climate change. More frequent and severe natural disasters could cost New South Wales between \$15.8 billion and \$17.2 billion per year on average by 2060-61. There could also be significant costs from rising sea levels, heatwaves and the impact of changing climatic conditions on agricultural production.

"Migration will become increasingly important for population growth and for slowing population ageing"

People of working age for every person aged 65 years or older



3.9
2020

2.4
2061

"Having a NSW workforce with in-demand skills will be especially critical in attracting the industries of the future"



Box 1: Jobs and industries of the future

Services will continue to be the main source of employment in New South Wales. Employment in social and business services are projected to grow to 52 per cent of jobs by 2035. Demand for services is associated with wealthier economies with high quality health, education and recreational sectors, and this continued growth in service jobs signals NSW's high living standards and productivity levels. New technologies driving productivity include process automation, decision generation, fixed robotics and navigation robotics.

In line with demand, people's skills are transitioning towards those valued in service industries, that is, skills needed for higher value-add, non-routine, cognitive and social tasks. This transition is evident in jobs growth in the Health Care and Social Assistance, and Professional, Scientific and Technical Services sectors. By 2035, these sectors together are projected to increase to almost 30 per cent of total jobs in New South Wales.

Modelling from the NSW Innovation and Productivity Council indicates that the industrial, mechanical, and production engineer workforce will grow by almost 16 per cent over the next 15 years. These projections are in the absence of any additional demand created by a rapid introduction of artificial intelligence.

Technology-enabled industries, such as fintech, medtech, agritech and cybersecurity are expected to be key drivers of economic growth.

As a global city, Sydney will continue to attract skilled talent and highly productive industries such as finance and insurance services. Areas such as Sydney's west (Westmead and Parklands for example) and coastal areas such as Newcastle and Wollongong will continue to attract high growth industries, including advanced manufacturing, aerospace, healthcare and film.

"People's skills are transitioning towards higher value-add, non-routine, cognitive and social tasks"

Projected share of jobs in social and business services by 2035



52 per cent

of total jobs, up from

36 per cent

in 1989-90

Sophia: how life may be in 2061

Sophia is a 40-year-old woman living near Bradfield, and one of 11.5 million people who call New South Wales home.

Like many 40-year olds, Sophia works for a business in one of the popular tech hubs in Western Sydney, an agritech startup. She studied applied AI at university and has worked in a few different fields using advanced IOT sensor analysis. With her broad experience and a later micro-degree from TAFE on agritech, she has been able to stay creative about applying ever-evolving sensor techniques for her clients. Social services and business service industries like hers (professional and technical services) now account for the majority of overall employment.

Sophia's work is roughly a third face-to-face and two-thirds working with colleagues remotely. When she does go into the hub, her commute is brief but productive – she uses her favourite electric autonomous vehicle service which whisks her into work in under 30 minutes as traffic congestion has eased thanks to the latest smart roads infrastructure.

Like many professionals, Sophia follows her jobs and has moved four times since buying her first home in her 20s. Sophia prefers to live where she can bike to local parks along the shaded, tree-lined cycleways and to have a home that fits her growing family.

This weekend, Sophia is looking forward to a trip to the South Coast with her family. Sophia is confident that she can take the trip without worrying about her mum's routine ongoing kidney treatment. Her mother manages the treatment at home and shares the doctor's updates with Sophia digitally, and Sophia can join video conference calls with the leading specialist in Newcastle whenever she is needed.



“Stamp duty typically adds 1.8 years to the time it takes to save for a deposit”

Investing in housing to secure future living standards

Stable, affordable housing is critical to economic security, physical and mental wellbeing, and facilitates access to jobs and services. Consequently, housing is essential to support rising living standards.

A period of very high housing construction combined with a slowdown in population growth due to COVID-19-related international border closures has led to inroads being made into the housing undersupply outlined in the 2016 NSW Intergenerational Report. We project that 1.7 million new homes will be needed by 2060-61 to support population growth and demographic trends. This is equivalent to around 42,000 new homes every year over the next 40 years. This will be a significant challenge.

Housing is typically the biggest investment a person makes in their lifetime, the largest form of savings, and the foundation for a secure and independent retirement.

Additional new homes in NSW required by 2061



1.7 million

that's one new home for every two existing homes today



On average, 57 per cent of household net wealth is in housing, and 17 per cent in superannuation. Households approaching retirement (aged 50-64) who do not own their own home typically have just \$78,000 in net household wealth compared with \$1.4 million for homeowners of the same age.

For over 25 years, the deposit barrier has increased relative to household income in line with rising house prices. This is a key barrier to home ownership and has occurred alongside a long-term decline in interest rates and not enough houses being built for our growing population. Lower interest rates increase house prices because households are able to borrow more money without increasing their monthly repayments. Over the coming decades we expect interest rates to increase from their current historic low. If we are able to build enough new homes for our growing population, rising interest rates are expected to slow the growth in house prices to below household income growth, and therefore reduce the deposit barrier to home ownership.

Reform of the State's property tax system could further lower the deposit barrier by removing the need to pay upfront stamp duty, which typically adds 1.8 years to the time it takes to save for a deposit. This would also make it easier for people to move home, whether for a new job, to be closer to friends and family, or to move into housing more suitable for their stage of life.

Projected number of people per NSW household



2.5
2018-19

2.3
2060-61



Implications for services, infrastructure and state government income

NSW governments will continue to face growing expense pressures on the services and infrastructure that they fund. These pressures are driven by population growth, population ageing, and increasing public expectations for services and infrastructure that reflect evolving societal preferences and technological advances.

Over the next 40 years, recurrent spending — the annual amount of money spent on delivering the services funded by NSW governments — is projected to grow by an average of 4.7 per cent each year. In real terms, this is around 80 per cent more per person by 2060-61 than in 2018-19.

As a share of the economy, recurrent spending is projected to grow to 14.5 per cent by 2060-61, up from 12.5 per cent in 2018-19.

Health, education and transport are projected to remain the three largest areas of recurrent spending over the next 40 years.

Capital expenditure reflects investments in schools, hospitals, public transport, roads, and other infrastructure. Following a period of record infrastructure investments over the ten years to 2019-20, capital expenditure is projected to return to around 1.8 per cent of GSP by 2060-61. This compares to 2.6 per cent of GSP in 2018-19.

To continue supporting outcomes that matter to people in an increasingly constrained fiscal environment, governments will need to continually rethink and redesign services and infrastructure to achieve outcomes efficiently and effectively. This must also be done whilst remaining resilient and adaptive to unforeseen natural disasters and other events.

There remain several opportunities for governments to better leverage advances in technology, support more connected services, embed resilience in service delivery and infrastructure, and more effectively prioritise investments using evidence and outcomes. Together, these can improve the quality and accessibility of services and infrastructure and support improved living standards for the people of New South Wales.

Share of total NSW recurrent spending by 2061



Health



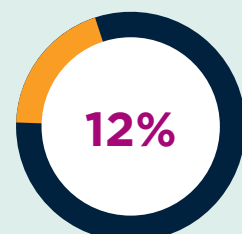
from 29%
in 2018-19



Education



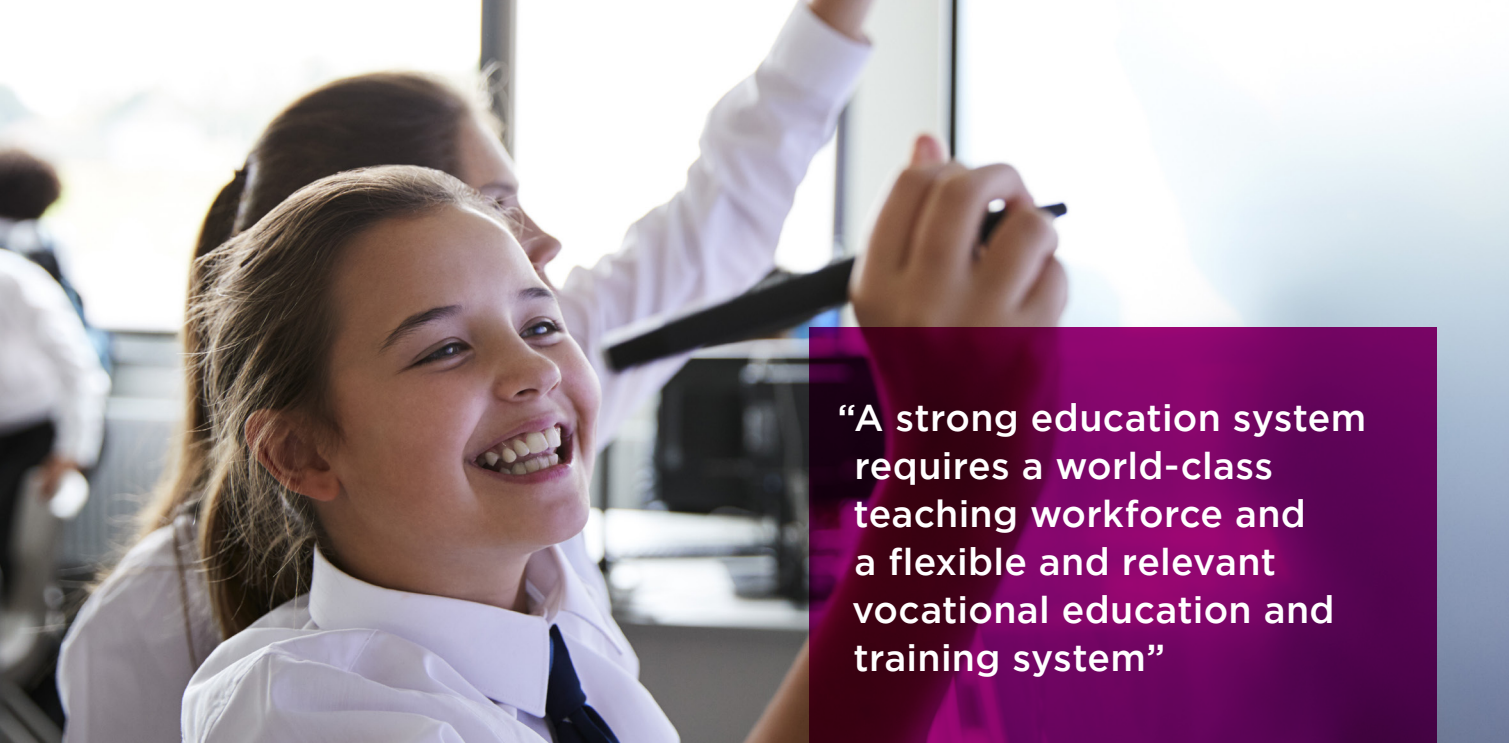
from 22%
in 2018-19



Transport



from 13%
in 2018-19



“A strong education system requires a world-class teaching workforce and a flexible and relevant vocational education and training system”

Health

Health is expected to remain the biggest category of recurrent spending, rising at an annual rate of 5.4 per cent on average, and growing from 29 per cent of total expenses in 2018-19 to 38 per cent by 2060-61. This growth reflects our ageing population, the burden from growing rates of chronic health conditions, expenses associated with the rapid medical and technological advances in health care, and expectations for higher quality healthcare.

A national focus on keeping people healthy and effective management of chronic conditions is needed to reduce demand for hospital care and keep health spending sustainable, whilst improving health outcomes.

This will require Commonwealth and state cooperation, including to continue to improve the detection and management of health conditions before they become acute, maintain an adequate and skilled health workforce, and improve healthcare accessibility. For example, through digitally-enabled solutions and better targeting of cohorts with higher risks of developing chronic diseases.

Education

Education is the second largest share of recurrent spending. The education system helps to equip people with the tools and habits to upskill and reskill throughout their lifetime, supporting a skilled workforce for the future. Education expenses are projected to grow at an average annual rate of 4.2 per cent over the next 40 years and represent 18 per cent of total recurrent spending by 2060-61. Expense pressures reflect growing demand for schools as the population grows.

A strong education system requires a world-class teaching workforce and a flexible and relevant vocational education and training (VET) system. Developing the right incentives to attract good quality teachers, as well as ensuring our VET system aligns to future jobs, will ensure future generations are equipped with the right skills.

Transport

Transport is the third largest share of recurrent spending, allowing more people to move more effectively around our cities and regions, supporting changing population centres, greater urbanisation and integrating new technologies to improve liveability, productivity and accessibility. Transport expenses are projected to grow on average by 4.4 per cent per year to 2060-61. Expense growth pressures include ongoing operational and maintenance costs associated with the recent transport network infrastructure investments. Transport infrastructure made up 63 per cent of total capital expenditure in 2018-19. This is projected to return to lower levels over time.

Opportunities to better utilise the capacity of our transport system will reduce reliance on building large scale physical infrastructure to meet the needs of our growing population.

This includes better integration of our planning and transport networks. Unlocking development and housing closer to jobs, shops and key public transport corridors will mean shorter commutes and reduced congestion. This will help make our '30-minute cities' vision a reality.



In the absence of revenue reform, our ability to fund services and infrastructure will become less sustainable

Revenue growth is projected to fall from an average rate of 5.4 per cent a year over the past 20 years, to 4.0 per cent a year over the period to 2060-61.

In the absence of reform, governments will need to borrow more to meet their spending needs.

State revenue sources are projected to grow more slowly than the broader economy. As state-based revenues decline as a share of our revenue base, New South Wales will become more reliant on Commonwealth revenue sources to fund our services and infrastructure. Revenues from the Commonwealth are projected to increase from 38.7 per cent in 2018-19 to 46.6 per cent of the State's total revenue base by 2060-61 (excluding the NSW Generations Fund).

Under current Commonwealth-State arrangements, such as the National Health Reform Agreement, New South Wales will also rely more heavily on tied forms of Commonwealth funding over the period to 2060-61. Greater reliance on tied payments will make it harder for state governments to innovate and provide services that produce the best outcomes for their citizens.

Measures that lift productivity and participation will grow our economy and state government revenues without increasing the burden on the taxpayer.

In relation to tax reform, one of the biggest opportunities that we have as a state is to move away from stamp duty towards an annual property tax, discussed in Chapter 3. Another major opportunity is to reform the design and distribution of the GST. Working together, Australian jurisdictions can modernise the GST to make it more robust, and improve funding arrangements to support a stronger, fairer federation. There are other opportunities to modernise our tax system, such as how we design road user charges as we transition from fossil fuels to electric vehicles.

Revenue will grow more slowly than total spending on average each year to 2060-61



4.0%

Revenue growth
(excl. NGF)

4.5%

Spending growth

Share of revenue from state sources (excl. NGF) is declining



61%
2018-19

53%
2060-61

Keeping our fiscal position resilient and economy strong

A strong economy underpinned by solid fiscal management prepares us, our children and grandchildren to deal with future challenges, while maintaining a high quality of life and intergenerational equity. Our economy's successes in managing the crises brought about by COVID-19 and bushfires highlight the importance of having a strong fiscal position to respond to such events. If we do not maintain a sustainable fiscal position, we erode our capacity to deliver high-quality services into the future, respond to unexpected events and maintain manageable debt levels for future generations.

Unless corrective measures are taken, government expenditure is projected to grow faster than government revenues by around 0.5 percentage points on average each year. By 2060-61, the fiscal gap is projected to be 2.6 per cent of GSP.

This is smaller than estimated in the 2016 NSW Intergenerational Report, which projected a fiscal gap of 3.4 per cent in 2055-56.

This fiscal gap projection excludes the growing portion of revenues over this period that will come from NGF earnings. The NGF is New South Wales' sovereign wealth fund established to guard against intergenerational budgetary pressures and keep debt sustainable in the long-term. Although NGF investment earnings will increase as the Fund grows, these earnings are retained within the Fund for future retirement of the State's debt.

In the absence of measures to address this structural imbalance between revenue and government spending, the State's overall debt position would deteriorate as deficits continue to build year on year. Unchecked, the State's gross debt would reach 133 per cent of GSP by 2060-61, including the NGF.¹ Taking into account the significant assets held in the NGF, net debt in 2060-61 would still be equal to 100 per cent of the economy. At this level, net debt in 2060-61 would represent around \$125,000 per person in New South Wales (in today's dollars). This would leave future generations significantly exposed to risks and uncertainty, including rising borrowing costs, that may challenge the ongoing delivery of quality government services and infrastructure.

"If we do not maintain a sustainable fiscal position, we erode our capacity to deliver high-quality services into the future, respond to unexpected events and maintain manageable debt levels for future generations"

Key fiscal projections in 2061 (as a share of GSP)

Fiscal gap



2.6%
(excl. NGF)

Fiscal gap



0.6%
(incl. NGF)

Gross debt



133%
(incl. NGF)

Net debt



100%
(incl. NGF)

¹ The diversion of revenues into the NGF (SOC dividends and coal royalties) also contributes to the accumulation of gross debt. Without these borrowings, gross debt is projected to reach 122 per cent of GSP by 2060-61.

These pressures and risks arise from government spending on services and infrastructure growing faster each year than revenue – a trend reflecting a range of structural economic and demographic factors. An ageing population and falling workforce participation will dampen growth in state-owned revenue sources, such as payroll taxes and transfer duties, and result in faster growth in health related expenses. Slower growth in other revenue sources also contribute to the State's growing fiscal gap, including reduced royalties from declining coal production. The nature of our federal system of government and our growing reliance on Commonwealth government funding also contributes to this gap, with a fall in GST revenues relative to the size of the economy over the projection period.

It is important to note that these projections are based on the assumption of no changes to current policy settings. In reality, the *Fiscal Responsibility Act 2012* requires that governments take corrective measures to prevent these outcomes from occurring and ensure debt levels are maintained at sustainable levels. This ensures debt servicing costs do not undermine the ability to pay for quality government services and infrastructure. The NGF also provides a substantial pool of funds that future generations can use to help manage any build up in debt.

By 2060-61, the NGF is projected to have a balance of \$430 billion (in today's dollars), amounting to 31 per cent of GSP.

The NSW Government has a range of options to maintain our strong fiscal position with sustainable debt levels that enable a growing, prosperous and resilient economy.

A number of reforms, such as those driving greater economic participation by women, and boosting productivity growth would have considerable impacts on both living standards and in reducing the fiscal gap (Chart A1). For example, lifting the rate of women's participation in paid work to be equal to men's over the next 20 years would also increase employment growth and lead to an economy that is 8 per cent larger by 2060-61, the equivalent of \$22,000 more income per household (in today's dollars).

At a state level, we can boost productivity and workforce participation, lift education and training standards, modernise the revenue base, and shift to more efficient user charges. We can continue delivering efficient outcome-oriented services and also take opportunities to support the increasing participation of women and older people.

With support from the Commonwealth, New South Wales can focus health services on early intervention and prevention and provide lifelong learning opportunities to the workforce. In full cooperation with the Commonwealth, we can achieve a more sustainable state revenue base through tax reform, attracting skilled people from overseas to support growth, improving service funding agreements, and achieving a fairer and more reliable flow of GST revenues to the states.

In taking these reform opportunities, the economy will be strongly placed to grow and adapt, providing prosperity and improved living standards for generations to come.

CHART A1: IMPACTS OF POLICY AND STRUCTURAL CHANGES ON THE FISCAL GAP (MUTUALLY EXCLUSIVE)



Source: NSW Treasury.

**“A strong economy
underpinned by solid fiscal
management prepares
us, our children and
grandchildren to deal
with future challenges,
while maintaining a
high quality of life and
intergenerational equity”**

