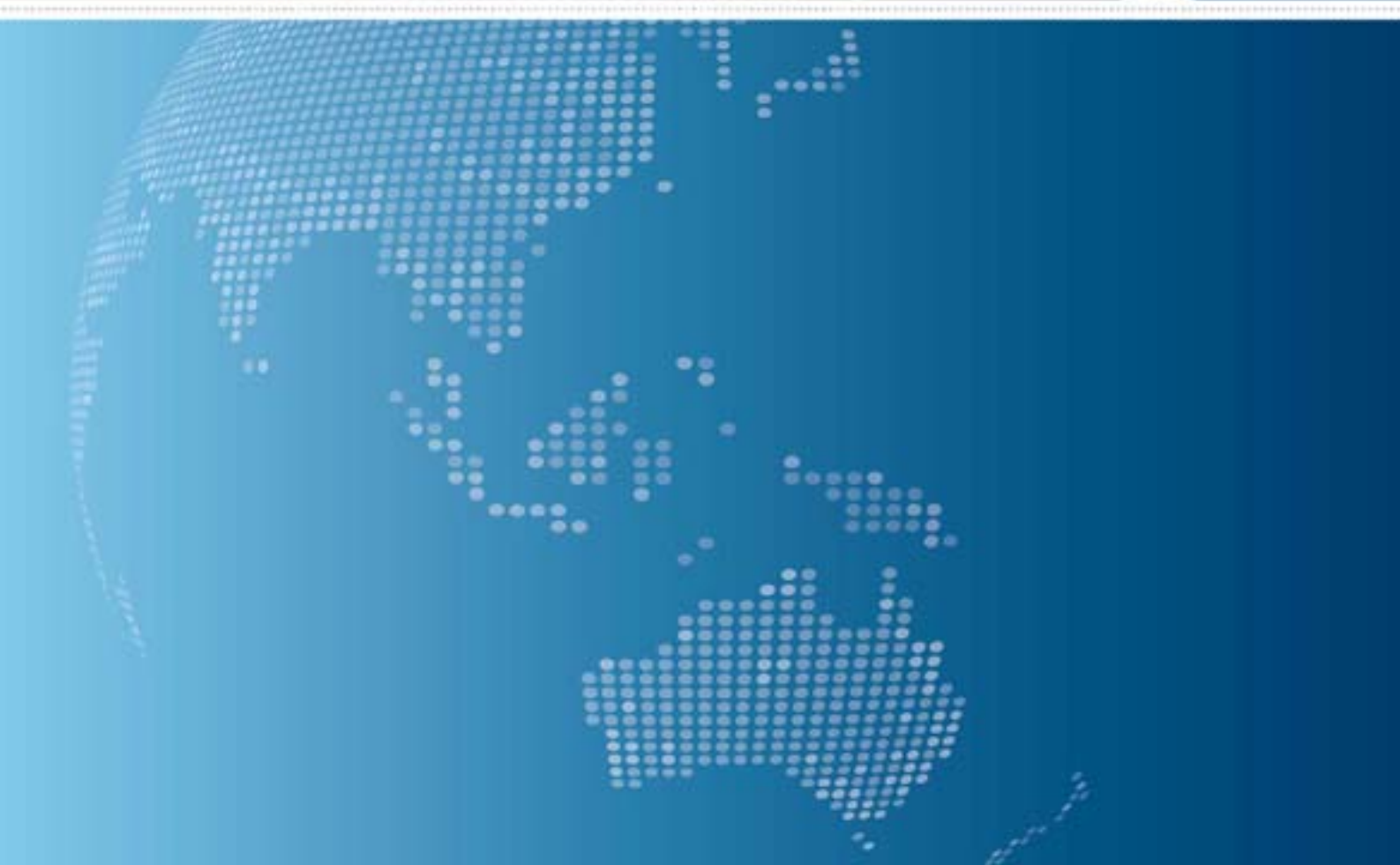




Australian Government
Department of Immigration
and Citizenship

Migrant Economic Outcomes and Contributions

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Migrant economic outcomes and contribution

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Overview

This short paper provides an initial summary of the evidence base to support migration planning.

The initial and medium term labour market outcomes of permanent migrants are summarised across different broad visa groups. The data are sourced from the department's *Continuous Survey of Australia's Migrants* and *Longitudinal Survey of Immigrants to Australia*.

The results indicate that migrants have different labour market outcomes depending on their visa category, skill level, and even depending on whether they are located in or outside Australia. All these factors are important in immigration planning.

It also points to the fact that the composition of the migration program matters in terms of achieving the greatest economic gains from our migration program. The survey data suggest that:

- Employer sponsored migrants and skilled independent migrants perform better than other non-employer sponsored visa streams and even business skills visa holders.
- In the Family stream, partners perform the best both initially and over the medium term.

This survey labour market data is fed into the department's *Migrant Fiscal Impact Model* to demonstrate the different impacts visa cohorts have on the federal Budget.

- The results from the Model show that most new migrants provide a substantial positive contribution to the Budget and this contribution grows over time.
- The positive contribution is highest in the Skilled migration streams. Among Family visa holders, Partners still manage to have a net positive fiscal contribution given their solid labour market outcomes.

Finally the framework behind the *2010 Intergenerational Report* and additional research commissioned by the department is applied to estimate the endogenous need for net overseas migration and permanent migration program levels.

- Net overseas migration could average around 180 000 to 190 000 persons per year over the next 10 years to reach trend economic growth under steady state assumptions.
- That said, this is a 10 year average and in the short to medium term there may be fluctuations in the underlying assumptions from one year to the next.

1 **Recent labour market outcomes of migrants**

The *Continuous Survey of Australia's Migrants* (CSAM) is a new survey which commenced in September 2009 to monitor the outcomes of recent migrants to Australia from the Skill Stream and Family Stream. The survey is conducted in waves with each cohort of respondents surveyed twice, once around six months after arrival (or after grant of an visa granted in Australia), and a second time six months later. Any improvement in migrant outcomes, brought about by an additional six months living in Australia can therefore be measured giving the survey a slight longitudinal aspect.¹

Although only in its infancy, the CSAM has provided an improved, more up to date understanding of the labour market outcomes of recent migrants. It indicates that the vast majority of skilled migrants have quickly become active participants in the Australian labour market—with migrants who are sponsored by an employer performing particularly well.

The main results from the first survey run in late 2009 are as follows for primary applicants:

- The unemployment rate of recently arrived skilled migrants was 5.0 per cent—0.7 percentage points below that of the national average.
- Recently arrived skilled migrants had a participation rate of 95 per cent—well above the national average of 65 per cent.
- Skilled migrants sponsored by an employer enjoyed the best employment outcomes—they had a negligible unemployment rate of 0.3 per cent and 94 per cent were working in a skilled job—noting that this is to be expected given the sponsorship requirements.
- The unemployment rate for points tested independent migrants from outside Australia was somewhat higher at 6 per cent—however more than 90 per cent of those who were working had found skilled employment.
- Points tested independent migrants from in Australia—a group mostly comprising former international students with an Australian qualification—had a low unemployment rate of less than 5 per cent, but also a markedly lower proportion in skilled employment.
- Skilled migrants sponsored by a family member or state/territory government did less well—particularly if they were granted their visa in Australia. Among this group, almost half of those employed were not in a skilled job, and their unemployment rate of 13 per cent was well above the national average.

¹ More details on the CSAM can be obtained from the department's website.
See: www.immi.gov.au/media/research/

- Family migrants had relatively worse labour market outcomes, with an overall unemployment rate of 29 per cent and incomes lower than the Australian median earnings. Nevertheless, not all family migrants are the same. Partners (or Spouses) have better labour market outcomes with their unemployment rate at 9 per cent and participation rate at 88.5 per cent.

Given that the survey was run in late 2009, in the midst of the global economic crisis and in an environment where these migrants had to compete for jobs against a large number of displaced Australian workers, these findings paint a positive labour market picture for recently arrived skilled migrants.

The results also indicate that migrants have different labour market outcomes depending on their visa and even depending on whether they are located in or outside Australia. All these factors are important in immigration planning.

It also points to the fact that the composition of the migration program matters in terms of achieving the greatest economic gains from our migration program. For example, the labour market outcomes may be optimised in the short-term by increasing the share of employer sponsored (ENS) migrants; or by increasing the share of migrants from outside Australia; or by favouring more partner/spouse places within the Family stream. That said, economic gains are not the only goals of the migration program and they may need to be balanced with other objectives such as facilitating family reunion.

Table 1: Employment outcomes of recently arrived migrants: 2009

October 2009	Participation Rate (%)	Unemployment Rate (%)	Full-time employed (% of employed)	Employed in a skilled job (% of employed)	Median earnings of full-time employed (\$)
Family stream	65.0	29.0	61.2	42.0	42 000
Skilled stream (overall)	95.0	5.0	83.6	75.0	60 000
Employer Nomination Scheme	98.3	0.3	95.0	94.1	80 000
Points tested (independent)	97.6	5.6	83.0	80.0	60 000
<i>applicants in Australia</i>	98.4	4.7	79.0	66.9	45 000
<i>applicants outside Australia</i>	96.9	6.3	86.0	91.4	70 500
Points tested (sponsored)	97.6	9.8	75.0	62.7	48 700
<i>applicants in Australia</i>	98.4	8.2	72.0	52.2	41 600
<i>applicants outside Australia</i>	96.2	12.7	81.0	82.5	63 000
Australian population aged 15 or more^(a)	65.2	5.7	70.2	49.2	56 000

(a) Outcomes for recent migrants are approximately six months after arrival for applicants outside Australia and six months after visa grant for applicants in Australia

Sources: Australian Bureau of Statics, Labour Force Australia, February 2010, Australian Bureau of Statistics, Survey of Employee Earnings and Hours, August 2008, Continuous Survey of Australian Migrants (Group 1, Wave 1), October 2009

2 Migrant labour market outcomes over time

While the CSAM is the latest survey, it only presents migrant outcomes for a short period of time soon after their arrival. To examine longer term migrant outcomes it is necessary to look at the *Longitudinal Survey of Immigrants to Australia* (LSIA).

This survey provides data on the outcomes of three groups of migrants, those who:

- arrived in Australia between September 1993 and August 1995 (LSIA1)
- arrived in Australia between September 1999 and August 2000 (LSIA2)
- either arrived in Australia, or were granted a permanent visa in Australia between December 2004 and March 2005 (LSIA3).

The outcomes have provided a solid evidence base for the assessment of various Commonwealth policies and programs; and have also been used in a wide range of academic research.²

While the LSIA3 data is the most recent, the LSIA 1 survey covers the longest duration, with information on how migrant characteristics changed between two and four years after arrival. As a result, it is possible to effectively compare migrant labour market outcomes over a four year period after arrival by combining the change from Year 2 to Year 4 from LSIA1 with information from LSIA3.

- For example, personal income estimates for Year 2 are used from LSIA3, with the change in income from Year 2 to Year 4 reported in LSIA1 added to this (appropriately scaled to 2009-10 dollars) to provide the current estimate of Year 4 income.
- Although the results in the LSIA may in part be due to the state of the economic cycle at the time of the survey, they still present useful data on the direction of migrant labour market outcomes over time.
- In any case, the starting point for LSIA migrant outcomes is generally comparable to the results reported in the CSAM above.

The labour market outcomes over time are presented below for primary applicants in each major visa group.

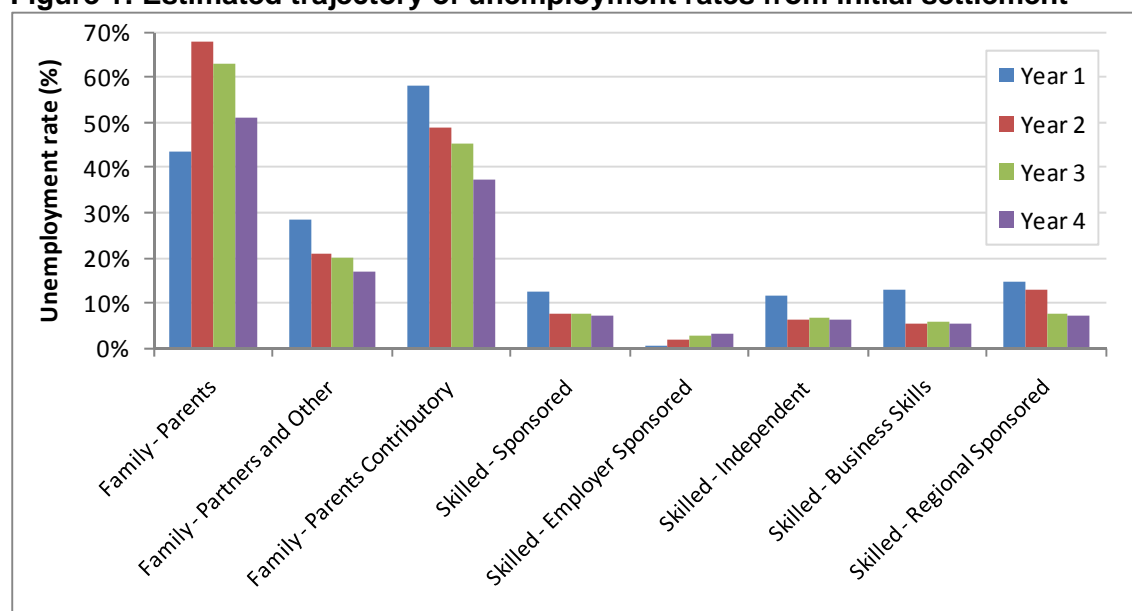
² Link to the LSIA research bibliography: www.immi.gov.au/media/research/lisia/bibliography.pdf

Unemployment rates

Once again, skilled migrants who are sponsored by an employer perform the best initially and over time (Figure 1). They have the lowest unemployment rates – averaging around 2 per cent over the four year period. Other skilled migrants also do well, however non employer sponsored migrants have unemployment rates that tend to be greater than the Australian average.

The unemployment rates for the Family stream are understandably less impressive. Nevertheless, partners perform relatively well compared to other visa streams. More importantly, unemployment rates for family visas tend to fall over time suggesting that they are better integrated into the labour market.

Figure 1: Estimated trajectory of unemployment rates from initial settlement



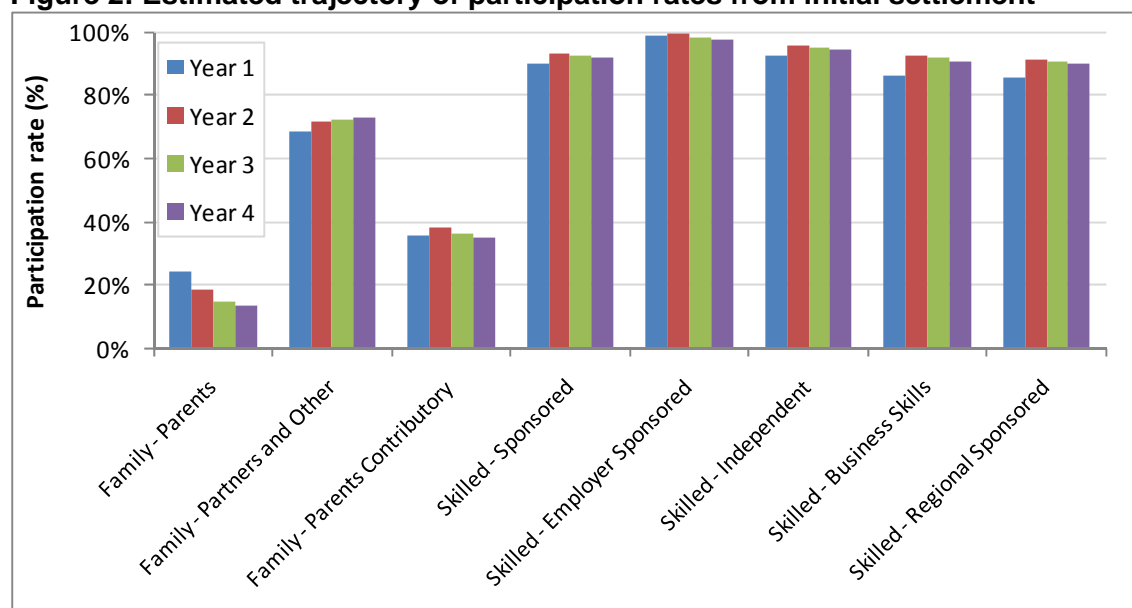
Source: Department of Immigration and Citizenship

Participation rates

Participation rates for Skilled migrants are significantly above the Australian average (65-66 per cent) and remain so over the four year period after arrival (Figure 2). Once again, skilled employer sponsored migrants perform the best averaging a participation rate close to 100 per cent.

Participation rates are low and generally falling for all categories of parents, with contributory parents performing slightly better. On the other hand participation rates are higher and improve over time for partner visas – averaging around 70 per cent.

Figure 2: Estimated trajectory of participation rates from initial settlement



Source: Department of Immigration and Citizenship

Incomes

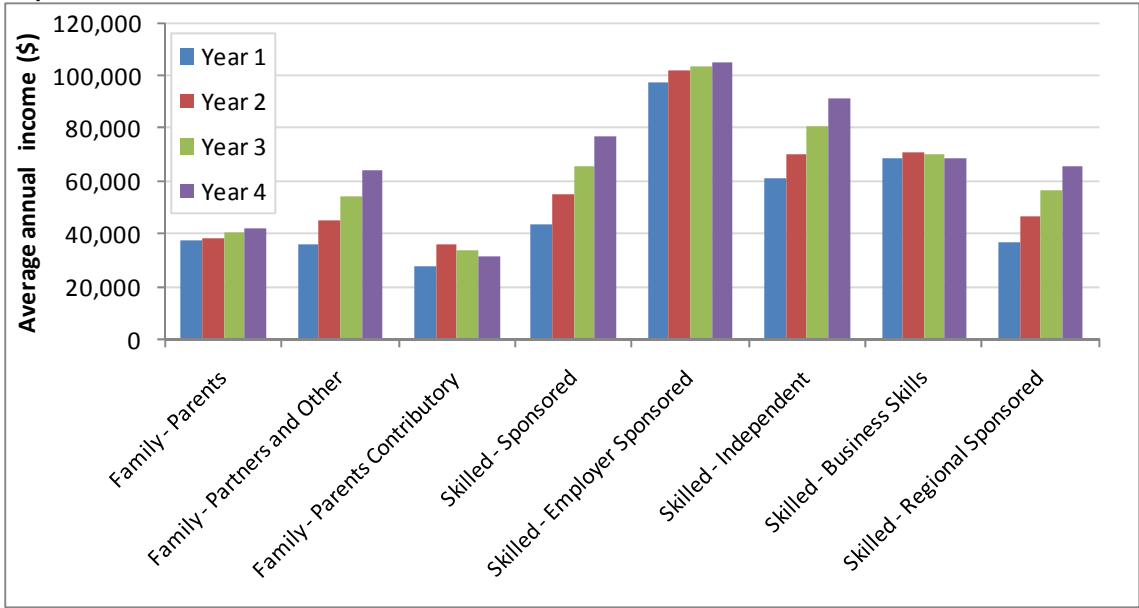
Average annual incomes are another important indication to the economic contribution of migrant visa cohorts (Figure 3).

As might be expected, employer sponsored migrants perform the best with average incomes from all sources ranging around \$100 000 in 2009-10 dollars. This is well above the current Australian average annual full-time adult total earnings of around \$69 000. Other Skilled visa groups also perform well with incomes at or above the Australian average and rising over time.

- The exception is the skilled sponsored category with relatively poor earnings results at least initially – consistent with the more recent findings in the CSAM.
- In addition, business skills migrants have positive but not spectacular earnings results – at around the Australian average. More would be expected given the ‘high value’ nature of this program to bring those with ‘successful business or investment careers’ to Australia.

Family stream migrants earn less than the Australian average and stay that way over the four year period. Partners are the exception with rising income over time which begin to approach the Australian average (rising to \$64 000 by Year 4 after arrival).

Figure 3: Estimated trajectory of average annual incomes from initial settlement (\$2009-10)



Source: Department of Immigration and Citizenship

The results from the longitudinal migrant survey data broadly confirm the findings of CSAM about the different labour market outcomes across visa groups. They also indicate that the majority of migrants integrate well into the Australian labour market over time.

3 *The fiscal contribution of migration*

The results of the migrant surveys can also be used to model the net fiscal impact of migrants.

The Department of Immigration and Citizenship has worked with Deloitte Access Economics over many years to develop the Migrants' Fiscal Impact Model. The Model provides a detailed profile of the effect of new migrants to Australia on the Commonwealth government budget, both in terms of revenues and outlays. The Treasury uses a similar simplified model to forecast the revenue impact of migrants on the Budget.

Model input data are sourced on migrant attributes such as incomes to estimate the tax and other revenues they contribute to the federal budget, as well as data on outlays they impose on the budget. Data on migrant attributes come from the *Longitudinal Survey of Immigrants to Australia* supplemented by data from the *Continuous Survey of Australia's Migrants*. Data are also sourced on the services that migrants have access to in order to estimate their impact on government spending. Data on migrant outlays are sourced from the latest final outcomes for 2009-10 from Portfolio Budget Statements and Annual Reports across all Australian Government departments.

The fiscal impact can be estimated over a 20 year period, taking into account the starting age profile of the migrant cohort and survival rates over time. The most reliable data are for the first four years after settlement in Australia after which migrants are largely assumed to converge to Australian averages for labour market and other outcomes (in the absence of other data).

The Fiscal Impact Model can be adapted to estimate the net fiscal impact of any population cohort as long as their key attributes such as numbers, age, income levels and employment status are known.

- The model can also be used to simulate the net fiscal impacts of different compositions of the Permanent migration program.

The existing results from the Model show that most new migrants provide a substantial positive contribution to the Budget and this contribution grows over time. The positive contribution is highest in the skilled migration streams. Among Family visa holders, Partners still manage to have a net positive fiscal contribution – given their solid labour market outcomes.

It is estimated that the total fiscal contribution from the 2009-10 Permanent Migration Program (approximately 168 600 migrants) is around \$880 million in the first year after their arrival. This rises to around \$1.2 billion after 10 years.

Table 2: 2009-10 Migration Program net impact on the Commonwealth Budget

Impact on the Commonwealth Budget by visa category (\$ million)	Period of settlement in Australia (years)						
	Year 1 2009-10	Year 2 2010-11	Year 3 2011-12	Year 4 2012-13	Year 10 2018-19	Year 15 2023-24	Year 20 2028-29
Family Stream							
Parents	-14.8	-10.7	-11.6	-12.2	-14.8	-24.1	-18.1
Partners and Others	-17.9	81.9	51.3	110.9	259.8	252.1	257.9
Contributory Parents	228.1	-11.0	0.8	-22.4	-34.3	-84.4	-83.4
<i>Total – Family Stream</i>	195.4	60.1	40.4	76.3	210.8	143.5	156.4
Skill Stream							
GSM – Independent	171.6	235.1	298.7	388.4	404.5	421.4	462.7
GSM – Sponsored	51.9	60.9	65.8	85.1	79.5	88.0	104.9
GSM – Regional Sponsored	5.5	12.4	13.2	16.1	17.6	18.9	21.4
Business Skills	37.7	37.2	38.8	32.2	27.9	24.7	20.3
Employer Sponsored	417.4	429.0	435.2	446.9	442.0	459.6	475.7
<i>Total – Skill Stream</i>	684.1	774.6	851.7	968.7	971.6	1012.6	1085.0
Fiscal impact of permanent migration program	879.6	834.7	892.1	1045.0	1182.3	1156.1	1241.3

Source: DIAC Migrants' Fiscal Impact Model

Budget projection but not 'life cycle'

Note that while the Model extends out for a considerable period of time (20 years) it is not a 'life cycle' model of migrants:

- Because most primary applicants (particularly in the skilled streams) tend to be aged between 20 and 40, over the 20 year time frame most would remain in the workforce, and not draw significantly on health costs or age pension costs.
- The Model also only examines the first generation of migrants (that is, the impact on the Commonwealth budget from any children of the migrant group born after arrival in Australia is not considered).

While the bottom line results from the model shown presented above are very strong, they do generally represent the life cycle phase where people would be contributing more to the Commonwealth budget rather than drawing down on it (with most migrants remaining within the working age phase over the 20 years). Nevertheless, the model demonstrates the strong positive fiscal contribution of migrants over the Budget forward estimate period.

More information about the Migrants Fiscal Impact Model can be found on the department's website.³

³ See *2008 Update of the Migrants Fiscal Impact Model* at: www.immi.gov.au/media/publications/research/

4 *Endogenous demand for migrants*

The Department of Immigration and Citizenship also has the initial capacity to model aggregate demand for net overseas migration (NOM) within a 3Ps (Population, Participation and Productivity) demographic and economic framework.

- This is consistent with the methodology behind the *2010 Intergenerational Report* (IGR) and also uses consistent assumptions. The methodology is based on research by McDonald and Temple (2010) *'Immigration, Labour Supply and Per Capita Gross Domestic Product; Australia 2010-2050'* and modelling using the *Productivity Commission's MoDEM 2.0*.
- At present the methodology is limited to considering only the total numbers of net overseas migration arrivals and departures to Australia and their associated age and gender profiles. In future, it could be expanded to take into account the differences in labour market outcomes of different components of NOM using the department's survey data. This would allow us to run different NOM composition scenarios.

This initial modelling allows us to examine the role that immigration can play in meeting economic objectives over the next 10 year period.

Consistent with the IGR, real Gross Domestic Product (GDP) growth is disaggregated into its three components - Population, Participation and Productivity. The research also takes into account the long run growth paths of productivity and participation outlined in the 2010 IGR. The next step is to incorporate the official Treasury GDP growth and unemployment rate outlook. The residual is the rate of population growth, and more specifically NOM, that would be consistent with the official GDP growth outlook.

In other words, if we expect over the next 10 years to 2020:

- productivity growth of 1.6 per cent and the participation rate slightly rising (consistent with the 2010 IGR);
- unemployment rate of around 5 per cent (broadly consistent with the latest forecasts and data from the Australian Bureau of Statistics (ABS)); and
- if we want to have an economic growth of 3.25 per cent (broadly in line with official forecasts and trend economic growth); then
- NOM could be 180 000 to 190 000 persons on average over the next 10 years.

From this level of NOM we can derive the average permanent migration program level over the next 10 years. The result is around 170 000 persons per year on average over the next 10 years. This is around current planning levels (Table 3). It should be noted that this is not a target level of NOM or of the Migration Program, but a 10 year average consistent with some longer run assumptions about the economic outlook.

Table 3: Labour Demand, 2010-2020 ('000s of persons per annum)

	Unemployment rate constant 5%
Employment growth to meet GDP growth outlook	0.8%
Employment growth with zero NOM	0.5%
Annual NOM to meet GDP growth outlook	188.7
Annual permanent migration program to meet GDP growth outlook	169.5

Assumptions: GDP growth outlook = 3.25% per year, trend labour productivity growth = 1.6%.

That said, this is a 10 year average and in the short to medium term there may be fluctuations in the underlying assumptions from one year to the next. For example, the most recent ABS data on GDP per hour worked – the measure used for labour productivity – shows a decline of 0.5 per cent in seasonally adjusted terms in the December 2010 quarter compared to the same period last year.

The department will look to build on this initial capacity with more detailed labour demand modelling and forecasting, as noted in the *Long Term Migration Planning Framework*. This will allow the department to better plan the level and composition of future migration programs.