

Understanding the impact of interest rates on the Noosa economy

Australia's economy is made up of complex mix of diverse regions, each facing unique challenges and opportunities. Broad economic factors, like global growth, exchange rates, interest rates, and immigration, can influence these regions in varying ways. This article explores how rising interest rates might affect different parts of the country. The Noosa Shire Council area is used as a case study to explore why a single interest rate can have distinct impacts on different places.

Key findings:

- **Mixed impacts:** Noosa's economy presents a mixed picture regarding interest rate sensitivity. While key industries rely on consumer spending, a significant portion of residents (homeowners) may be less impacted by rising interest rates.
- **Generational divide:** Rising inflation and interest rates disproportionately burden younger residents, while those who are older and have already paid off their mortgages are less affected.
- **Older residents still spending:** Many older residents are buying these properties with cash or already own their home outright. This financial security allows them to continue spending within the local economy, potentially mitigating some of the impacts of reduced spending by younger residents.
- **Workforce challenges:** High property prices combined with rising interest rates create challenges for younger workers with a mortgage. It also creates a barrier to entry for young workers, potentially leading to future workforce shortages in Noosa.
- **Potential tourism impacts:** Rising interest rates may dampen tourism spending, but further investigation is required to determine the net effect.

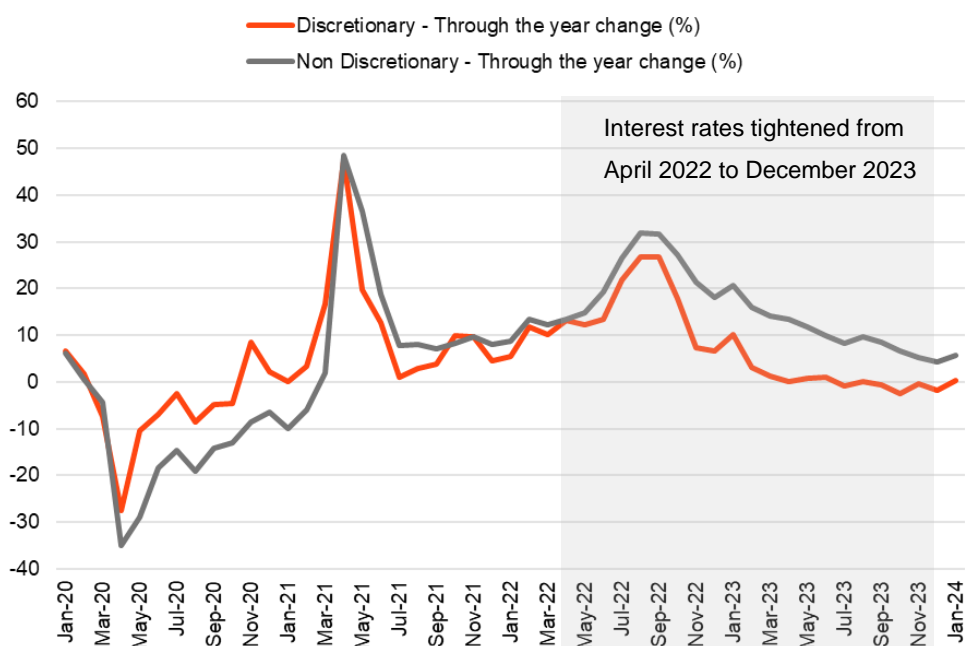
Interest rates overview

The Reserve Bank of Australia (RBA) controls interest rates to manage inflation and economic activity. When the economy is strong, the RBA raises the cash rate to slow consumer spending.

Recent rate increases and their national impact

To combat high inflation (2021-2022), the RBA increased the cash rate from 0.1% in April 2022 to 4.35% in December 2023. This, along with cost of living pressures, has reduced disposable income and curbed housing spending, especially on discretionary items. However, business investment, government spending, and tourism recovery have partly offset this decline.

Discretionary and non-discretionary spending, current price, calendar adjusted, Australia



Source: ABS Monthly Household Spending Indicator

Challenges of a one size fits all approach

Setting a single interest rate for all of Australia is difficult because economic growth and inflation varies greatly across regions. Some regions, particularly those reliant on interest-sensitive industries (retail, hospitality) and high mortgage rates are more susceptible to interest rate changes. Taking a regional lens, this article explores how higher interest rates might affect different areas, with Noosa serving as a case study.

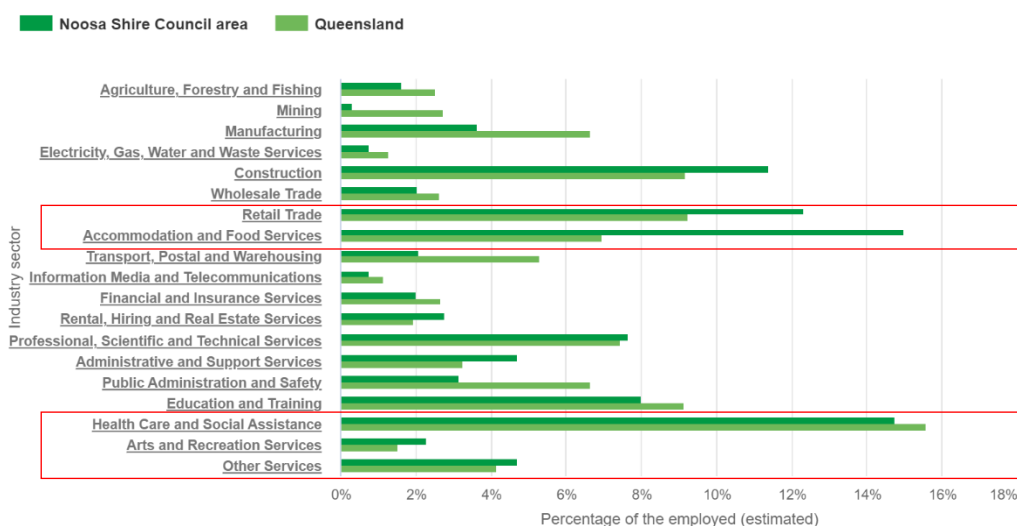
Case study: Noosa, QLD

Noosa's economy and interest rate sensitivity

At first glance, Noosa's economy seems more sensitive to interest rates than other areas. This is because its largest industries – tourism, restaurants, shops, healthcare, childcare and construction – rely heavily on people's spending. In 2022, the largest employing industries were Accommodation and Food Services, Health Care and Social Assistance, Retail Trade and Construction.

When interest rates rise, it can leave people with less disposable income, meaning they might spend less at local businesses. However, there's more to the story. As we'll explore later, Noosa's local economy has some unique characteristics that might influence how interest rates impact it.

Employment (total) by industry 2021/22



Source: National Institute of Economic and Industry Research (NIEIR) ©2023 Compiled and presented in economy.id by .id (informed decisions).



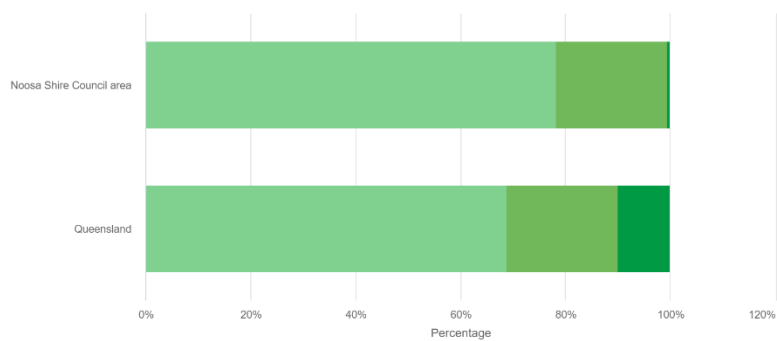
The chart below shows that Noosa's economy realised more on spending by residents (local spending) compared to the Queensland average. Over 78% of Noosa's economic output comes from locals spending their money within the region, while the Queensland average is only 69%.

This difference is because Noosa has a larger share of businesses that cater directly to households, like shops, restaurants, and cafes. In contrast, other regions in Queensland focus more on industries like mining and agriculture, which are less affected by interest rates. However, these mining and agricultural regions are more vulnerable to other external factors, such as global economic growth and the prices of commodities like coal or wheat.

Economic output by destination 2021/22

Noosa Shire Council area - All Industries

Local Sales Exports (domestic) Exports (international)



Source: National Institute of Economic and Industry Research (NIEIR) ©2023

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Importantly, the [Noosa Economic Development Strategy](#) aims to diversify the economy, boost exports of goods and services and create higher value economic opportunities. By reducing its dependence on the local population for growth, Noosa can become more resilient to interest rates and other macro economic fluctuations.

Impact on Noosa residents: homeownership advantage

Mortgage repayments are a major factor influencing how individuals are financially affected by interest rate changes. Those who own their homes outright are less affected compared to those with mortgages.

However, in Noosa, the impact of higher interest rates might be less severe compared to other regions. This is because a larger percentage of homeowners in Noosa have already paid off their mortgages. While there will still be some impacts, which we'll explore next, Noosa appears less exposed overall compared to other locations.

In Noosa, over 42% (or more than 10,000 households) own their homes outright, exceeding the national average of 30%. Over time the proportion of homes owned outright has increased. This translates to a significant portion of the local population being shielded from the direct financial burden of higher interest rates.

Housing tenure, 2021



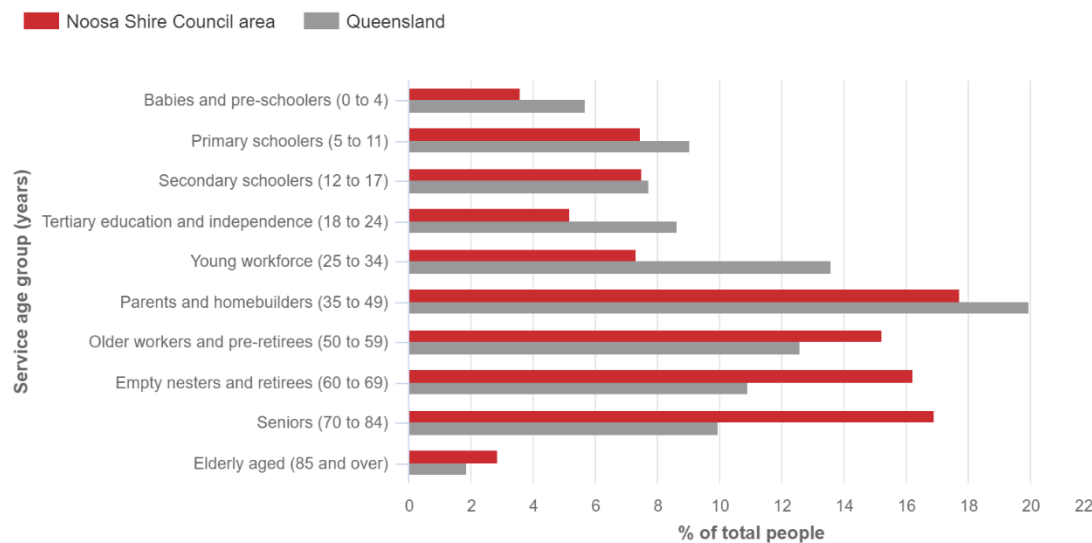
Source: Australian Bureau of Statistics, Census of Population and Housing, 2021 (Enumerated data). Compiled and presented in profile.id by .id (informed decisions).

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The age structure of Noosa helps explain its higher homeownership rate compared to the Queensland average. Over half (51.2%) of Noosa's residents are aged 50 or over, compared to 48.2% in Queensland. Since homeownership tends to rise with age, this larger population of older residents likely contributes to Noosa's greater share of fully owned homes. Furthermore, since a significant portion (78%) of Noosa's fully owned homes belong to this older demographic (50+), they are likely less susceptible to the financial strain of rising interest rates.

Age structure - service age groups, 2021

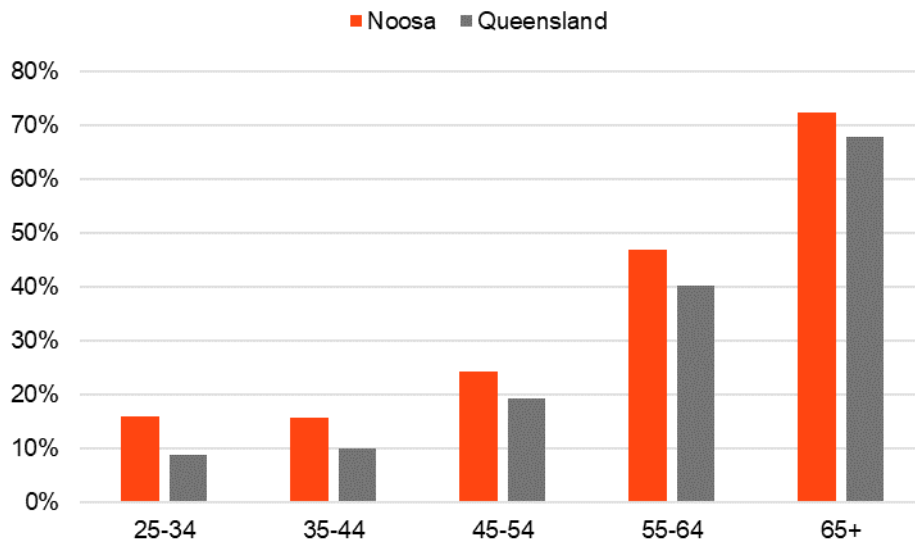
Total persons



Source: Australian Bureau of Statistics, Census of Population and Housing, 2021 (Usual residence data). Compiled and presented in profile.id by .id (informed decisions).

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Home ownership rates by age group, persons



Source: ABS Census of Population and Housing, 2021 (enumerated data)

The CommBank iQ Cost of Living Report further reinforces this. The report shows that older Australians, a prominent demographic in Noosa, have been less impacted by higher interest rates. The report highlights a 6% increase in spending by older Australians, outpacing both national spending and inflation.

With a lower impact on disposable income due to a high homeownership rate and increased spending by older residents, the effect on local businesses in Noosa is therefore expected to be less severe compared to regions that have are reliant on local spending and high share of households with a mortgage.

Cash purchasers buffer the interest rate impact

Noosa's housing market exhibits another layer of insulation from rising interest rates: a high proportion of cash purchases. [Settlement data from PEXA](#) shows that cash purchases make up one in two residential sale settlements in 2023, significantly higher than the 27.6% average in the eastern states. Noosa [attracts an older demographic](#) with greater wealth, allowing them to purchase property without relying on mortgages as heavily as buyers in other regions.

Some residents more impacted than others

However, some residents are more impacted. Roughly 29% of Noosa households still have mortgages, which are likely to be impacted by rising interest rates. This group is younger than homeowners.

The impact on mortgaged households in Noosa might be even more significant due to the region's high median house price compared to other regions. Larger mortgages translate to a more substantial financial burden when interest rates increase. Although the data is from 2021, almost 17% of Noosa Shire households with a mortgage spent more than 30% of their household income on servicing their mortgage, a higher level of “mortgage stress” than in Queensland (12%) or Australian (15%).

Median weekly mortgage repayment	
\$438	▲ (\$39)
Regional QLD	\$380 ▼
Queensland	\$399 ↔
Australia	\$432 ▲

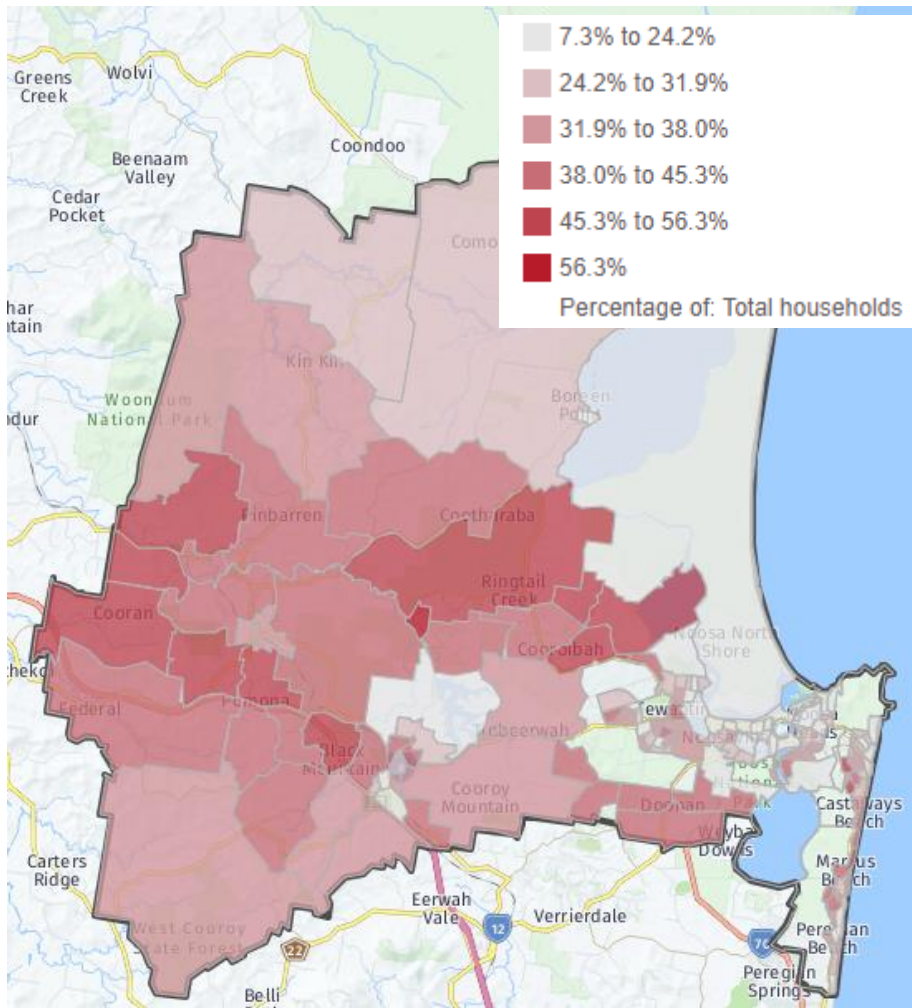
Median Price (Jun 2023)	
Median House Price (Jun 2023)	
Noosa	\$1,300,000
Regional Qld	\$600,000
Median Unit Price (Jun 2023)	
Noosa	\$1,102,500
Regional Qld	\$570,000

Identifying more vulnerable areas within Noosa

To understand the full picture, we can identify areas within Noosa likely to be more exposed by higher interest rates. These areas would have a high share of households with mortgages. Examples include Cooroibah-Ringtail Creek, Timbeerwah-Doonan, Pomona-Rural North, and Sunrise Beach-Castaways Beach.

These areas likely have a younger demographic with a higher proportion of mortgaged homes, making them more susceptible to the financial strain of rising interest rates.

Households with a mortgage, 2021, Enumerated



Source: ABS Census of Population and Housing

Renters feel the pinch despite interest rate buffer

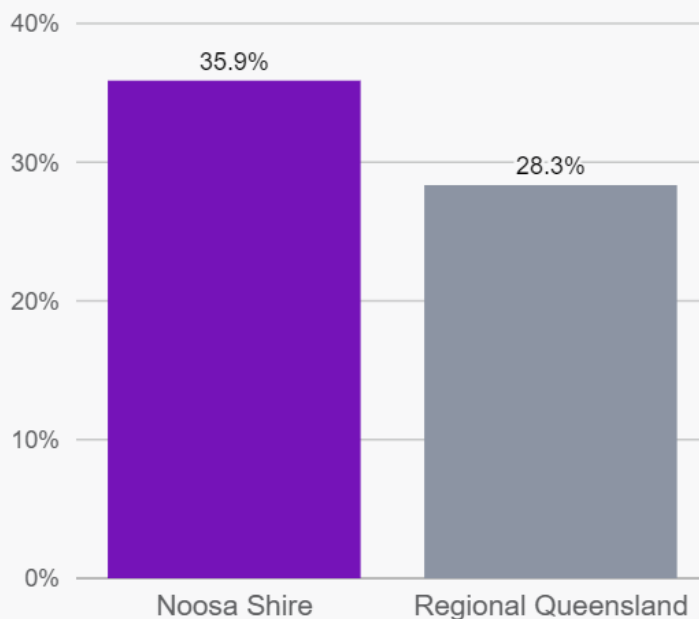
The remaining 21% of Noosa households who rent are not directly impacted by interest rate changes on their own disposable incomes. However, they are still feeling the effects through rising rental costs.

This rise is driven by a range of factors, including a shortage of rental properties and higher interest payments for investment property owners. With fewer rentals available and investors facing increased mortgage costs, they may be inclined to raise rents to offset their expenses.

Noosa's median rent has jumped from \$550 per week in June 2020 to \$765 per week in June 2023. This translates to a household that was spending 30% of their income on rent in 2020 likely experiencing housing stress now.

Rental stress compared , 2021

Percentage of households renting in rental stress



Source: ABS Census of Population and Housing, 2021.
Compiled and presented by .id (informed decisions).

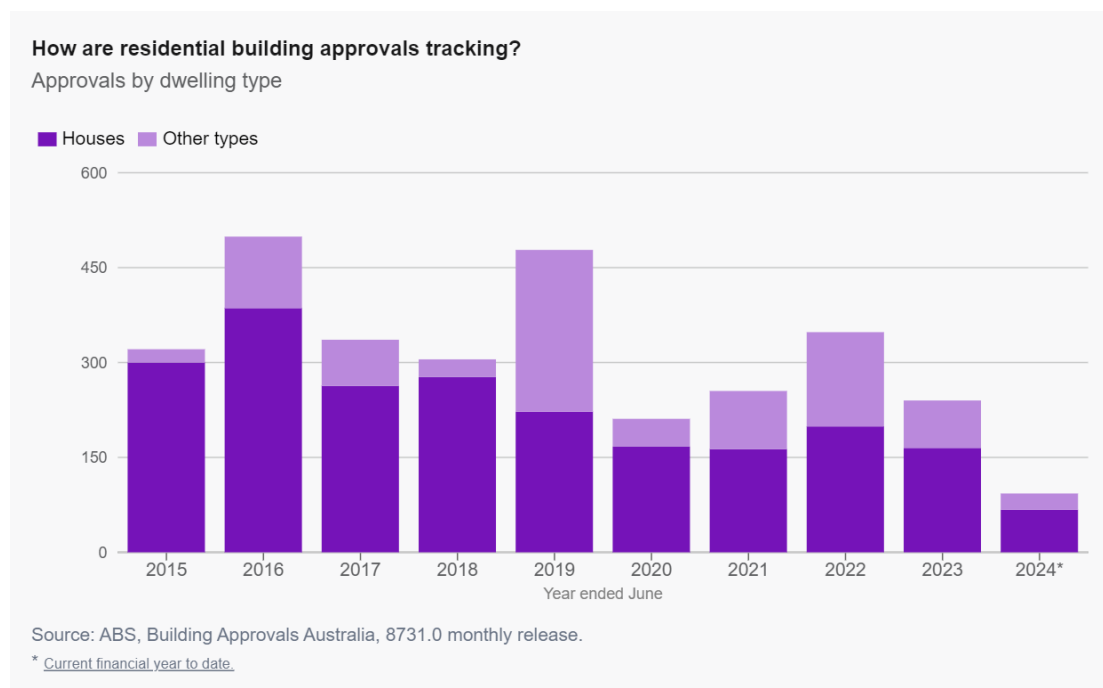
House price resilient, but housing affordability impacted

The RBA suggests that rising interest rates reduce the value of residential property¹. This is because higher interest rates limit the amount of money people can borrow for mortgages, which in turn reduces overall demand. However, the impact of interest rates can vary depending on the specific location.

Noosa's housing market dynamics make residential prices somewhat resilient to rising interest rates. This is because of the high cash purchase rate as illustrated earlier but also because residential demand often outpaces supply. Noosa continues to experience high demand for housing, driven by its desirable location and lifestyle. However, the number of new homes being built (as indicated by building approvals trending downwards over the past

¹ <https://www.rba.gov.au/speeches/2022/sp-so-2022-09-19.html#:~:text=Increases%20in%20interest%20rates%20reduce%20the%20current%20value%20of%20future,that%20have%20future%20income%20streams.>

decade) hasn't kept pace with this demand, keeping property prices relatively high.



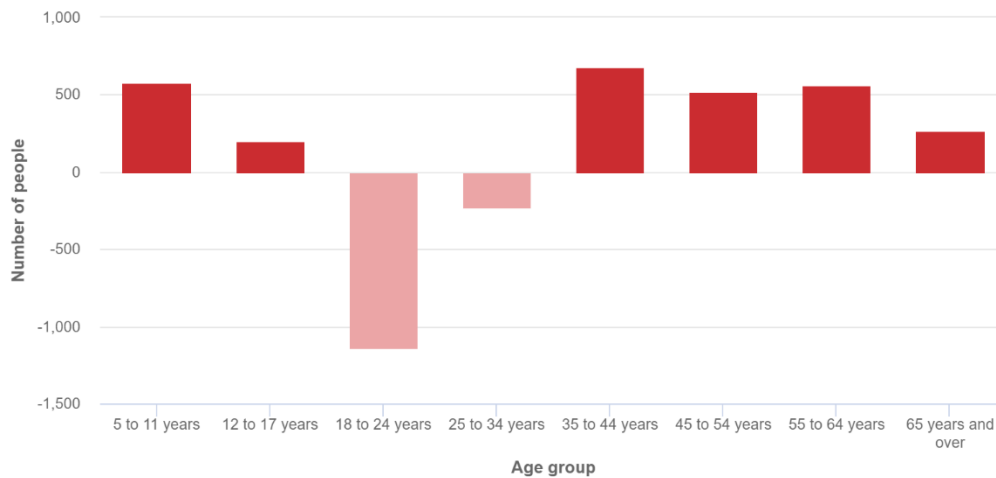
Young talent and workforce growth at risk

This affordability issue then impacts Noosa's migration pattern and age profile. As the figure illustrates, Noosa experiences significant out-migration of young adults. Many 18-24 year olds leave for Brisbane to pursue higher education, followed by a large number of 25-34 year olds.

This trend, coupled with an aging population (often referred to as "ageing in place"), means Noosa's population growth is primarily driven by older age groups. High property prices are already a barrier for many young adults, particularly those in the 25-34 year old bracket who are typically first-time home buyers. Rising interest rates further exacerbate this issue, making Noosa even less affordable for this cohort.

Net migration by age group 2021 (5 years)

Noosa Shire Council

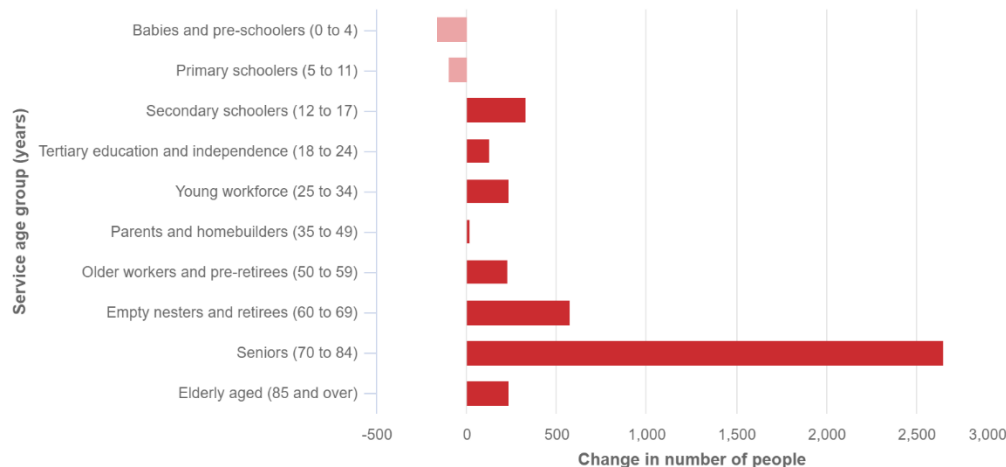


Source: Australian Bureau of Statistics, Census of Population and Housing, 2021 (Usual residents data). Compiled and presented in profile.id by .id (informed decisions).

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Change in age structure - service age groups, 2016 to 2021

Noosa Shire Council area - Total persons



Source: Australian Bureau of Statistics, Census of Population and Housing, 2016 and 2021 (Usual residence data). Compiled and presented in profile.id by .id (informed decisions).

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The unfortunate consequence of this situation is that many workers, especially those on lower incomes (e.g. cleaners, child care, café staff, health workers, etc), are forced to seek housing further away from their jobs. This creates a financial strain due to longer commutes and can negatively impact their overall well-being. Without a readily available local workforce, Noosa's attractiveness as a business location may suffer.

Higher interest rates impact on travel budgets

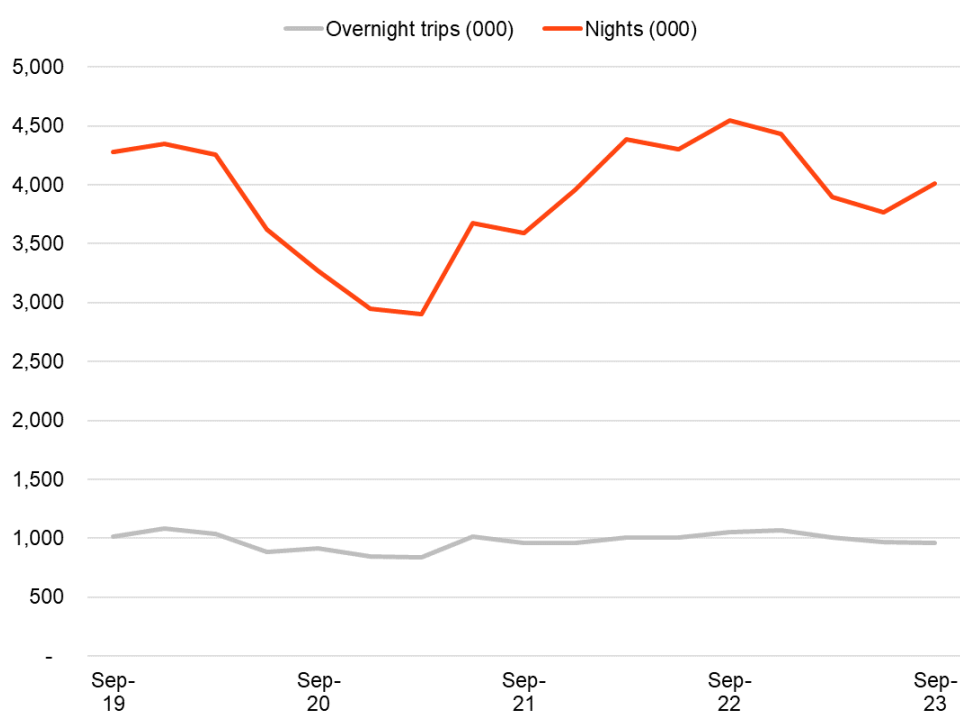
Another sector likely to be impacted by higher interest rates is Noosa's tourism sector. This is because tourism businesses, such as hotels, cafes, restaurants, and arts and recreation services, often cater to out-of-region discretionary spending. Unlike essential expenses like

transportation, utilities, and food, leisure activities are more likely to be postponed or cut back when household budgets tighten.

Noosa's overnight visitor nights dropped by 12% in the year leading to September 2023, coinciding with a period of rising interest rates and cost-of-living pressures. This suggests that Noosa's tourism sector may be somewhat sensitive to these economic changes.

However, some travellers facing higher costs may choose to forgo international travel altogether and opt for domestic destinations like Noosa instead.

Over-night tourism visitation to Noosa, 4 quarter moving total



Source: Tourism Research Australia

Noosa's double-edged sword: interest rates and affordability

While we haven't delved into all the economic ripple effects of interest rates, such as business investment, wealth distribution, and inflation, this analysis sheds light on the localised consequences that can unfold.

Noosa's unique demographics, economic and housing market dynamics create a buffer against the negative impacts of rising interest rates. This benefits both residents and local businesses, as discussed earlier. However, this resilience comes at a cost.

Affordability challenge

While somewhat shielded from the immediate effects of rising interest rates, Noosa's housing market faces a long-term challenge: affordability. This trend makes it difficult to attract younger workers and first-time homebuyers to the region.

Future workforce concerns

The limited affordability could lead to skill shortages in the future, particularly as Noosa's population ages and existing workers retire. Without a younger generation to fill these roles, businesses and the overall economy could struggle. This means that Noosa will need to rely on workers from other areas, leading to longer trips, reliance on motor vehicles and higher carbon emissions.

Building a more resilient Noosa economy

Responding to the economic opportunities and challenges facing Noosa requires a collaborative effort from various stakeholders, including local and state governments, businesses, and community organisations.

The following areas could be addressed to promote economic diversification, improve affordability, and create a more resilient Noosa.

1. Foster economic diversification:

- **Implement Noosa's Economic Development Strategy:** Actively pursue initiatives outlined in the strategy, focusing on export growth, attracting new industries, and creating high-value jobs. This approach will lessen Noosa's reliance on tourism and local spending, making it less vulnerable to external factors.
- **Support business growth:** Collaborate with businesses to identify and address barriers to growth, such as access to capital, skills development, and affordable workspace. This can lead to increased business activity, potentially resulting in more job opportunities, more work hours available and ultimately higher local incomes.

2. Enhance housing affordability

- **Increase affordable housing options:** Explore and implement strategies to develop more affordable housing, including housing that caters to the needs of key workers and young professionals.
- **Promote diverse housing choices:** Encourage development of a variety of housing options, including smaller units, apartments, and alternative development models.

- **Advocate for housing incentives:** Advocacy to State and Federal governments for policies that encourage construction of affordable housing targeted towards workers vital to Noosa's economy.

3. **Improve transport accessibility**

- **Target investment in public transport infrastructure:** Expand public transportation networks within Noosa and connect workplaces to where people live. This provides residents with more affordable and sustainable transportation options.

Promote active transportation: Improve active transport options. Encouraging active transportation can reduce household transportation costs.