
Demographics for Dummies (and the RBA)

There's a prevalent assumption that Australia is far more urbanised (or should I say suburbanised) than the rest of the world. It's being spread by, among others, high-ranking staff of the Reserve Bank of Australia. Those staff have suggested urbanisation is a partial explanation for the gaping difference in dwelling price-to-income ratios between Australia and the US.

According to the RBA's numbers, the average Australian dwelling sells for almost 5-times average household disposable income versus less than 2-times in the US.

But there's a slight problem with the assumption about Australian urbanisation being far greater than in the US. While it's both plausible and widely-believed, it's also wrong. Last year, I attempted to prove as much—see [Statistical Buggery: RBA Urbanisation](#).

Statistical Differences

The misunderstanding, I suspect, stems from the quite different way that some nations measure city size. This particularly applies to the USA. Americans focus on the single, central inner city municipality whereas Australians chiefly look at greater metropolitan area.

An apples-with-apples comparison of urbanisation requires us to use the [Combined Statistical Area](#) population numbers. This measure recognises Chicago, for example, as the 10 million inhabitant super-city that it is, rather than counting only the 2.7 million people that live in the downtown and immediate surrounds.

I thought my debunking last year was comprehensive. Nobody argued the contrary. One of our readers emailed a copy of the blog post to the then RBA Governor, Glenn Stevens, and Head of Financial Stability Department, Luci Ellis. The latter had been a staff member perpetuating the myth in the first place. That reader received a response from an RBA Communications Officer. My post had been forwarded to both Stevens and Ellis.

Una Mas

It's to be expected that nobody called to discuss it with me, these people are busy. But it's disappointing to see Luci Ellis back out on the circuit spouting the same rubbish, most recently last week at the [Australasian Housing Researchers Conference](#). Here's the most relevant portion of her opening remarks:

"What we can do is get some sense of the relativities between countries that you might expect, given those institutional and other differences. For example, we can reasonably expect that countries where much of the population lives in smaller, cheaper cities will have lower national aggregate ratios of housing prices to incomes than other countries. That might partly explain why the price-to-income ratio for the United States is relatively

low.”

I don't know if any of the 'Housing Researchers' in the crowd called her on it. But, once again Luci, I'd like to call 'bullshit'.

Counting Urbanisation Properly

The table below lists the 8 largest cities in Australia by greater metro area population. In the next column is the cumulative percentage of Australians living in cities that size or larger. To clarify, 21% of Australians live in Sydney, 41% in Sydney or Melbourne and so on. It's true that we are quite urbanised. But we're not alone.

In the next column is the percentage of Americans living in cities that size or larger. This measure is done using combined statistical area. So 37% of Americans live in cities as big or bigger than Sydney, and 51% in cities as big or bigger than Brisbane. You can get data for both [Australia](#) and [America](#) from Wikipedia.

| Percent of population living in cities as big as: | <u>Australia</u> | <u>USA</u> |
|--|-------------------------|-------------------|
| Sydney | 21% | 37% |
| Melbourne | 41% | 39% |
| Brisbane | 51% | 51% |
| Perth | 60% | 53% |
| Adelaide | 65% | 59% |
| Gold Coast | 68% | 69% |
| Newcastle | 70% | 72% |
| Canberra | 72% | 72% |
| >100,000 | 79% | 76% |

In contrast with what Ellis is claiming, here are some facts:

- 29% of Americans live in cities larger than 7 million people, versus 0% in Australia

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- 37% of Americans live in cities as big or bigger than Sydney vs 21% in Australia
 - 51% of the population in both nations live in cities as big or bigger than Brisbane
 - 72% of the population in both nations live in cities as big or bigger than Canberra
 - 76% of Americans live in cities larger than 100,000 people, slightly lower than the 79% in Australia.

Start spreading the news

The differences between the two nations in this regard are surprisingly mild. The clearest one is the percentage of the population living in megacities. That's because there are none Down Under.

Australia does have somewhat more people living in cities larger than 100,000 people but smaller than Canberra. In mirror contrast, the US has a slightly larger percentage of its population living in towns and villages with less than 100,000 people—24% versus 21% in Australia.

But these don't look like statistically significant differences to me. It's not enough to even hint at it as an explanation for the vast difference in dwelling price-to-income ratios between the two nations.

It's time for RBA staff members to stop spreading this nonsense and perhaps book into a Demographics 101 course.