

People come, people go

Falling net migration to New Zealand

- **Net migration to New Zealand is slowing because more Kiwis are leaving for Queensland and Western Australia. Immigration from other sources has been steady.**
- **Lower net migration will hurt the housing market, the residential construction industry, and retailers.**
- **One of New Zealand's biggest challenges is a shortage of labour, and it is set to get worse.**
- **The Reserve Bank will regard lower net migration as welcome relief from inflationary pressure.**

Net migration¹ to New Zealand is falling fast. In 2006 New Zealand added 14,600 people to the population through net migration. In 2007, the figure was 5,500. The way things are shaping up, net migration could be as low as 3,000 in 2008. In this bulletin we outline the causes of the fall in migration, and discuss what it means for the economy.

New Zealand's net migration is extremely volatile by OECD standards, sometimes adding or subtracting 1.25% to the population in a single year. Between 1976 and 1989 there was an exodus from New Zealand. We lost a total of 250,000 people, or 8% of the population, due to outward migration exceeding inward. Only in the past couple of months have we

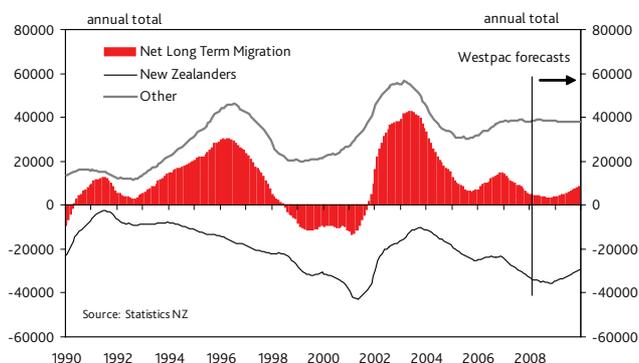
finally regained the "lost population" of the 1970s and 1980s, with the post-1990 influx now matching the 1976-1989 loss (i.e. total net migration since 1976 has been zero).

The late-1990s and early-2000s saw another brief period of negative net migration, but in 2002 migration suddenly turned around into a massive net inflow. We went from losing people at a rate of 13,000 per annum in 2001 to gaining 38,000 in 2002. Over 30 months 100,000 people poured into New Zealand. The trend was mainly driven by more Kiwis returning from overseas and fewer leaving, but arrivals of overseas migrants also played a part. It seems that the weak world economy, the relatively strong New Zealand economy, and security worries associated with terrorism and the invasion of Iraq attracted people to New Zealand. Since 2005 net migration has settled into a more moderate net inflow of people, averaging 10,000 per year.

The drop in net migration during 2007 was entirely due to Kiwis crossing the ditch (leaving for Australia). 42,000 people left for Australia in 2007, up from 34,000 in 2006. The number of people coming the other way remained fairly constant, meaning the net loss to Australia jumped from 21,000 in 2006 to 28,000 in 2007. There is still a steady inflow arriving from other parts of the world, but this is now only just enough to offset the loss to Australia.

It is too simplistic to say "New Zealanders are moving to Australia". In the bigger picture, people from throughout Australasia are moving to Queensland and Western Australia, attracted to the mining and construction booms where fortunes are being made and wild wages are being paid. Population growth rates in New South Wales, South Australia, and Tasmania have been as subdued as New Zealand's (see *graph overleaf*). These states are losing population to the resource

Migration flows



¹ Net migration is the number of people arriving in New Zealand who declare that they intend to stay twelve months or more, minus the number of residents who leave and intend to stay away for twelve months or more. Both New Zealand and foreign citizens are counted.

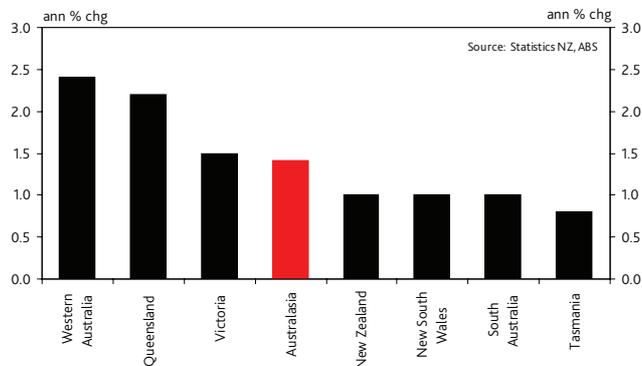
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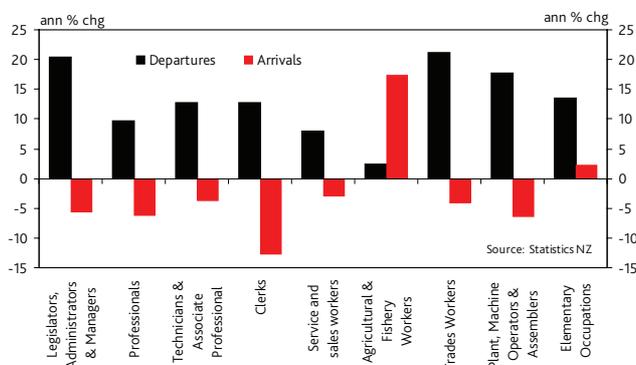
states even as they gain population through natural increase and overseas migration, just like New Zealand. Meanwhile, Western Australia's population is growing at more than twice the rate of any OECD country except Australia!

Population growth rates in Australasia



A detailed look at who is leaving NZ points the finger firmly at mining and construction, further suggesting than Kiwis are leaving for Queensland and Western Australia. The breakdown by occupation of departing emigrants records big increases among tradespeople (departures up 22%) and machinery operators (up 17%). The "legislators, administrators, and managers" occupational group is also leaving in droves.

Change in migration by occupation group, 2007 vs 2006



Incidentally there is nothing unusual about the current age profile of emigrants, contrary to recent media reports highlighting the loss of families with children. Around half of emigrants are in the 25-49 age-group and a fifth are children, indicating that many emigrants are indeed families with children. But this age group has always been the most mobile, and today is no exception. New Zealand still receives more families than it loses.

The immigration outlook

On current trends annual net migration will trough at 3,000 in late-2008, making this a very mild migration cycle. A couple of months ago we worried that net migration could turn negative, but that now looks less likely. Monthly figures show that the outflow to Australia has stabilised while arrivals from other countries are picking up.

However, one can never say never in economics. The flow of people to Queensland and Western Australia could easily accelerate again and produce negative net migration numbers in New Zealand. Equally, the economic outlook for NZ is far stronger than for the UK, possibly suggesting a pickup in net migration from the UK in the year ahead, similar to the last time the world economy slowed.

Net migration and the economy

Low net migration could cause house prices to fall even faster. Net migration involves only a tiny fraction of the population, but it has a disproportionate effect on the number of people buying or selling houses. Back in 2003 there were thousands of new arrivals looking to put a roof over their heads, cashed up with UK Pounds and US dollars. Not only are migrant arrivals now lower, but at today's exchange rates Pounds and US dollars don't go far in NZ. Meanwhile, with so many people heading for Australia, there are plenty of sellers in the housing market.

Fewer people in New Zealand spells a slowdown for residential construction. New Zealand has been adding around 27,000 to the stock of houses in each of the past three years, as the building industry has striven to clear the housing shortage that developed earlier in the decade. But if migration in 2008 is as low as we think it will be, New Zealand will need just 17,000 additional houses. Luckily many of the people moving to Australia are builders themselves, hopefully leaving plenty of work for those builders who stay.

Retailers of consumer-durables such as fridges, washing machines and cars should also brace for a slowdown, as these are products associated with newly forming households. They are also products that emigrants can flog off on internet auction sites. Retailing more generally will feel the effects of low net migration via falling house prices, which make some consumers feel less wealthy.

The slowdown in net migration will have an ambiguous impact on the labour market. Slower building activity, lower house prices and slower consumer spending are a sure recipe for lower employment growth. But New Zealand is desperately short of workers and low net migration will make it even more difficult to find labour. In some industries, such as agriculture, labour shortages are set to get even worse and wages could rise quickly. In other industries, such as real estate, there could be layoffs and lower remuneration. We think that low net migration will reduce but not eliminate the overall shortage of workers, so unemployment will remain rock-bottom and wage growth will remain strong.

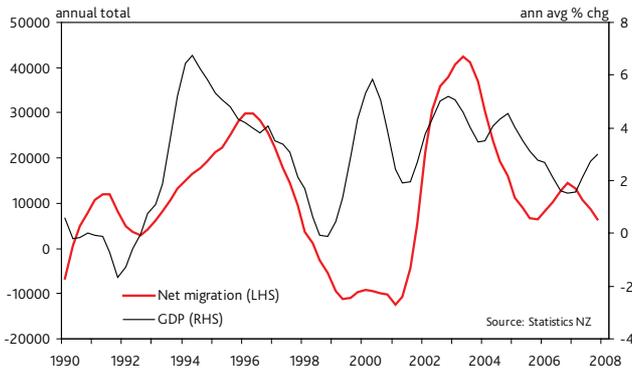
Net migration is viewed as a critical driver of inflation pressure by the Reserve Bank. The impact on inflation is theoretically ambiguous – lower consumer demand and falling house prices tend to dampen inflation, but labour shortages tend to stoke inflation. In the Reserve Bank's 3-year time horizon lower demand dominates, so low net migration alleviates inflation

pressure. Last year's fall in net migration probably averted the need for one OCR hike. A further fall in net migration over 2008 would be a relief to the beleaguered central bank, allowing a lower OCR than would otherwise have been necessary. But recall that the Reserve Bank is still staring down the barrel of a serious inflation problem for other reasons, so we continue to

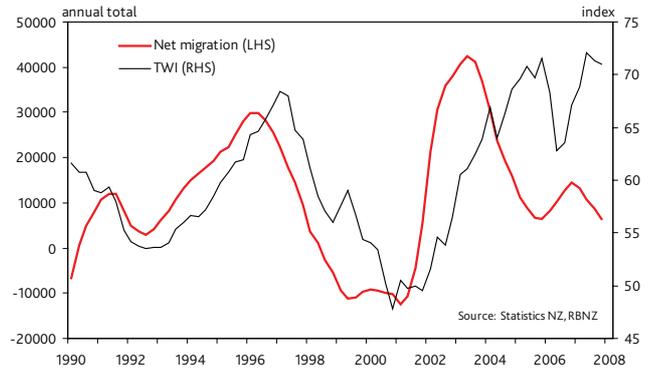
expect the OCR to remain high for a very long time, even with a net migration slowdown.

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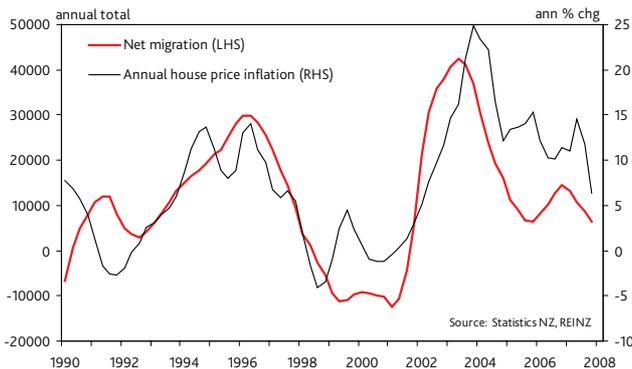
Net migration and GDP



Net migration and exchange rate



Net migration and house prices



Net migration and residential construction

