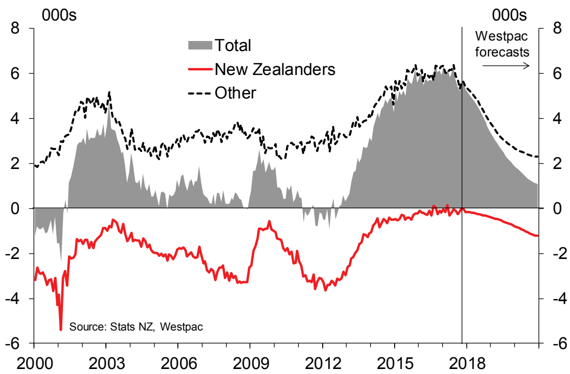
They came, they saw, they're leaving:

A look at recent migration trends in New Zealand

8 December 2017

- While still elevated, net migration has turned and it's set to fall sharply over the next few years.
- The downturn in net migration has begun even before the new Government has tightened migration settings, and expected policy changes will reinforce recent trends.
- Combined, expected changes in government policy and the natural forces already in play will see net migration drop from over 70,000 now to around 10,000 in 2021.
- Just as the run up in net migration provided a powerful boost to demand in recent years, the downturn that we have entered will be a significant drag. We expect that lower net migration will see population growth slow from over 2.1% per annum to 0.8% by 2021. That signals a huge reduction in the economy's rate of potential GDP growth.
- Lower net migration will have a significant impact on the economy. It will remove an 'easy' source of demand growth that businesses have enjoyed in recent years. It will also reinforce downward pressure on house prices and dampen demand in the construction sector over the coming years.
- The fall in migration will also reduce the pool of available workers in some lower skilled occupations, with a related lift in wage pressures. However, potential policy changes are likely to have a smaller impact on the availability of skilled labour.

Net migration (monthly)



Migration is at a record high...

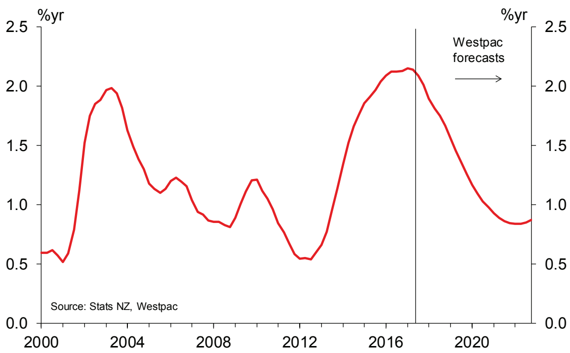
New Zealand has experienced a massive migration boom. Flows of people into the country have been running hot for several years now, including large numbers arriving on temporary work and student visas. We've also seen higher than usual numbers of New Zealanders choosing to stay onshore or come back from overseas. Together, these conditions have resulted in an extended period of strong migration, with the annual net inflow of people rising to a record high of 72,500 in July of this year.

The big factor underlying the recent strength in migration has been New Zealand's favourable economic conditions. Compared to many other regions, including Australia, New Zealand has enjoyed a fairly positive run of economic activity recent years. We've also been more politically stable than countries like the UK, adding to New Zealand's attractiveness as a destination.

...which has added to demand...

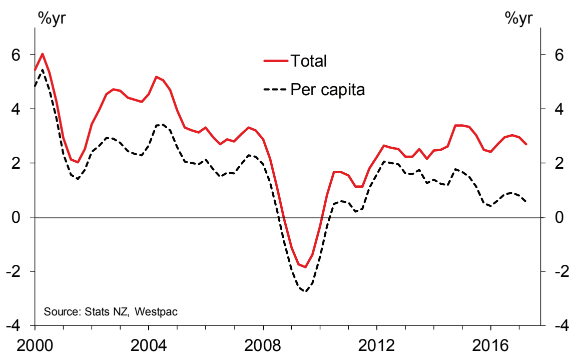
Strength in net migration has seen population growth surge to rates of over 2% per annum in recent years. That's some of the fastest population growth New Zealand has seen since the 1970s, and is a rapid pace for any developed economy.

Population growth



This strong migration driven population growth has delivered a powerful boost to demand in the economy. We've seen the impact of this in areas like retail spending. It has also masked what's actually been very muted per capita economic growth in recent years.

Total and per-capita annual GDP growth



The migration related increase in demand has also been particularly important in the housing market, with population inflows adding to the demand for both rental and owner-occupied housing. This boost to demand has been spread across the country and reflects not only the strong lift in arrivals, but also the larger-than-usual number of New Zealanders staying on shore in recent years.

...and boosted our supply capacity

Migration doesn't just affect demand. It also adds to our productive capacity. And it's particularly important for helping us source the skilled labour necessary for our growing economy. During the current migration cycle, inflows have been weighted towards those of working age. And since the uptick in migration began in late 2012, we've actually seen the unemployment rate fall from 6.7% to 4.6%.

Migration settings expected to tighten over the coming year...

Striking a balance between these competing demand and supply considerations has been at the heart of the recent debates on migration, and the political consensus on where that balance lies has shifted following September's election.

Prior to the election, Labour proposed tightening visa eligibility for students and low-skilled workers (the details of the proposed policy changes are shown in the table below). It estimated that these changes would reduce net migration by 20,000 to 30,000 people per annum, with most of the change related to a reduction in student numbers. We've used this as a baseline for our forecasts.

Proposed changes in migration rules

Visa Category	Change	Consequence
Student Visa	Limiting visas and ability to work for low value courses	A fall of 6,000-10,000
Post Study Work Visa - Open	Remove work visas without a job offer for lower level qualification graduates	A fall of around 9,000-12,000
Work Visas	Regionalise the occupation list and ensure that employers hire Kiwis first	A fall of around 5,000-8,000
Estimated Reduction		20,000-30,000

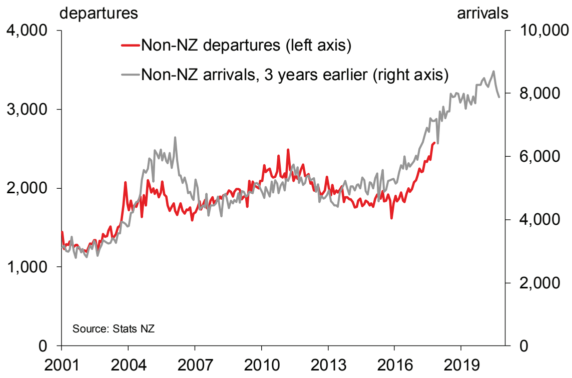
Source: labour.org.nz

...which will reinforce a slowdown that is already underway

But even before any policy changes have been implemented, the migration cycle has turned. Although annual net migration remains very strong, monthly net migration has fallen 12% since June. And looking at the underlying details of the net migration figures, we see reason to expect further substantial declines over the next few years.

As mentioned above, much of the increase in net migration that we saw in recent years was due to inflows of those on temporary work and student visas. Historically, those arriving on these sorts of visa tend to stay for around three to four years before departing. This time, the pickup in departures took a bit longer to eventuate, but we are now seeing it come through (as shown in the chart overleaf). In fact, monthly departures of non-New Zealanders has risen by 30% over the past year. And with a very large number of arrivals in recent years, we're likely to see a proportionately large 'echo' of departures going forward.

Flows of Non-NZ citizens in and out of the country



At the same time, new arrivals have been declining, with monthly inflows already down 10% from their peak. And with the global economy improving, we expect that these numbers will continue to soften going forward. In fact, even before September's election we were already factoring in a drop in arrivals of around 30,000 people over the next few years. Now, with policy changes likely to put a further brake on arrivals, its likely that the downturn will be even more stark – we've pulled down our forecast for arrivals by a further 12,000 people. This additional policy related change to our forecasts is smaller than the Labour Party's assumed estimate. However, the impact of possible rule changes is uncertain, and in an environment in which migration is falling anyway, such changes may be less binding.

The improving global economy will also mean that increasing numbers of New Zealanders will start looking to make the jump off shore over the coming years.

We were already expecting annual net migration to fall sharply over the coming years. However, as a result of expected policy changes, we've wound back our forecasts even further. We now expect net migration to drop from over 70,000 currently to around 10,000 by the end of 2021.

Lower migration will be a drag on economic growth

The slowdown in net migration that is underway will see the rate of population growth slow from 2.1% currently to 0.8% over the coming years. That signals a huge reduction in the economy's rate of potential GDP growth, and is a key reason why we expect lower GDP growth over time.

This will have a number of significant impacts on the economy:

- First, it will remove an 'easy' source of **demand growth** that businesses have enjoyed in recent years. It's much easier to increase revenues in an environment where the population is expanding rapidly. For many businesses, particularly those that sell consumer items like home furnishing, slower population growth over the next few years will be a significant drag.
- Lower migration is one of several upcoming policy changes that we expect will result in very weak **house price inflation** over the coming years.[1] The fall migration will also reduce the upwards pressure on rents.
- In terms of the **construction**, going forward we won't see the same sort of large increases in demand that we have in recent years. In Auckland, demand for housing will remain strong. However, it will be a very different story in many other regions that aren't wrestling significant shortages of housing. In fact, in some regions slower population growth could mean that construction levels fall over the coming years.
- The fall in migration will reduce the pool of available workers in some industries, with a related lift in wage pressures. However, with the new Government looking at a targeted tightening of migration settings, impacts will be varied across sectors. In particular, we're likely to see fewer **unskilled workers** arriving over the coming years, which will be particularly important in areas like hospitality and retail.
- Policy changes are likely to have a smaller impact on the availability of **skilled labour**. Even with planned changes to migration settings, the Government is still aiming to ensure that migration can help to meet the need for specialised labour in key sectors of economy, like construction. Nevertheless, with the global environment improving, many businesses will still find it tough to attract highly skilled staff.

Satish Ranchhod
Senior Economist

[1] Other policy changes that will affect house prices include the extension of the 'bright line' test for taxing capital gains and the removal of the ability to write-off losses on rental properties against personal incomes. The impact of these and other policy changes is discussed in more detail in our latest Economic Outlook, available here: https://www.westpac.co.nz/assets/Business/Economic-Updates/2017/Bulletins-2017/Westpac-QEO-November-2017_EMAIL.pdf

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