

# A smaller and slowing boost to the economy

## A closer look at recent migration flows

1 February 2019

- Updated migration estimates from Stats NZ have highlighted some unexpected and important trends in New Zealand's population. We now know that a much larger proportion of the people who arrived in recent years only came on a temporary basis. That means that the population growth rate has been lower than previously thought and is slowing more rapidly.
- Lower net migration and population gains will provide a smaller boost to demand and spending over the next few years.
- Fewer people on the ground also implies less need to build new houses than previously thought. The outlook for residential construction is likely to be downgraded.
- This reinforces our expectations for a cooling in GDP growth over the next few years.

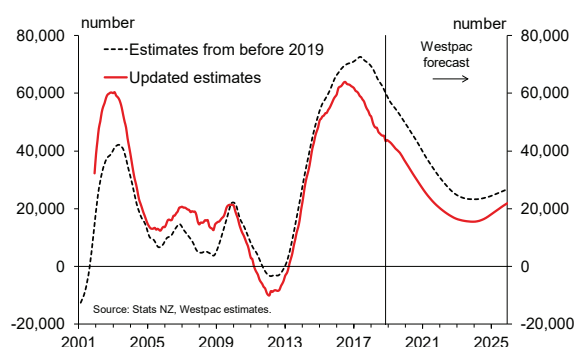
### Net migration has been much lower than initially thought

One of the key drivers of economic activity in recent years has been rapid population growth on the back of high levels of net migration. Strong inflows of new migrants and low departures of New Zealanders have provided a powerful boost to spending and also generated a strong need to build homes. At the same time, the related increases in the labour force have boosted the economy's productive capacity and helped to address skill shortages in some sectors.

Stats NZ has recently taken a closer look at movements in and out of the country over the past few years, and this has revealed some important trends. It turns out that a larger proportion of the people who arrived in recent years only came on a temporary basis. This means that the increase in permanent and long-term migration, and the related change in New Zealand's resident population, has been smaller than was thought. Earlier estimates had suggested that annual long-term migration had risen to a peak of 72,500 in mid-2017. However, Stats NZ's updated estimates have revealed that long-term migration actually peaked at a lower level of around 64,000 back in mid-2016. The latest estimates have also shown that net migration has now fallen to an annual rate of around 43,000 - a level that's around 20,000 lower than initially thought. Looking at the past four years as a whole, this means that around 47,000 fewer people settled in New Zealand on a long-term basis than had been estimated (that's close to 1% of New Zealand's total population).

The size of this revision may seem surprising given that New Zealand keeps tight control on the number of people crossing its borders. But while we have good information on the numbers of people entering and leaving the country, the duration of their stay can be harder to track. Some people who plan to visit for a temporary period may end up staying permanently. Alternatively, some of those who plan to stay on a long-term basis might end up departing sooner than expected. The difference is important. Permanent or long-term migrants (those who remain onshore for more than a year) will have a larger impact on the country in terms of their spending, employment, and their housing needs.

### Net permanent and long-term migration



Those who enter the country on a shorter-term basis (less than a year) still contribute to the economy, but the impact is likely to be smaller and less enduring.

Previously, Stats NZ used people's stated intentions on arrival and departure cards to estimate how long people planned to stay in the country (this is sometimes referred to as the 'intentions' approach). They are now using an 'outcomes' based approach that looks at actual movements in and out of the country. This is a bit more complex to estimate given the time needed to track people's movements across borders. But over time, it should give a more accurate estimate of what's actually happening to migration flows.

The updated migration estimates have shown that both long-term arrivals and long-term departures have been higher than previously thought. The revision to departures has been the bigger of the two, meaning that the level of net migration has been lower. The difference has been heavily centred on those aged 20 to 29. This age group will include a large proportion of international students, as well as those on temporary work or working holiday visas - all groups that tend to be highly mobile. In other words, more young foreign people have been leaving New Zealand than initially thought.

This still leaves us with a picture of strong overall inflows into the country in recent years. However, a greater proportion of those inflows were on a short-term or temporary basis. Those temporary arrivals will have added to demand and they still needed somewhere to stay, but have probably provided a smaller boost to economic conditions than permanent migrants would have.

### **Lower net migration reinforces our expectations for slower GDP growth...**

Lower long-term migration will have a number of important implications for the economy and it reinforces our expectations for a cooling in GDP growth and the housing market over the next few years. This will also be important for the labour market.

Lower longer-term migration means that population growth has been slower than expected in recent years. Stats NZ's next update on the population level won't be out for a few weeks. When released, we expect that those figures will reveal New Zealand's population is currently smaller than previously believed. We estimate that annual population growth peaked at 2% in 2016 and has since slowed to 1.5%. Those are still solid rates of population growth, but would be a fair bit slower than was initially thought. Furthermore, with net migration continuing to trend down, it implies smaller increases in the nation's demand base over the next few years. That will be important for many businesses, meaning that an 'easy' source of demand growth that they've enjoyed in recent years is dissipating even faster than expected.

### **...including a reduction in the amount of new housing required**

Lower net migration and population growth will also have a major impact on residential construction. For some time, we have been highlighting that the rate of dwelling construction was catching up with population growth. We predicted that as population growth slowed, housing shortages would begin to ease in the coming few years, and therefore the outlook was for moderate growth in construction activity. These data revisions reinforce that view. It now looks as though residential consent issuance is already at the level required to keep up with population growth. And with fewer migrants settling here on a long-term basis, the number of homes that will eventually be required is lower than previously thought.

These trends will be particularly important for Auckland which has experienced an especially large population cycle. However, their impact will be felt more widely. Many other regions are currently seeing high levels of home building, and the durability of those cycles looks increasingly doubtful, especially given the policy-induced slowdown in the housing market already in train. We'll take a closer look at the extent of changes in the construction outlook in our upcoming February *Economic Update*.

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