

# The turning tide

## What drives trans-Tasman migration?

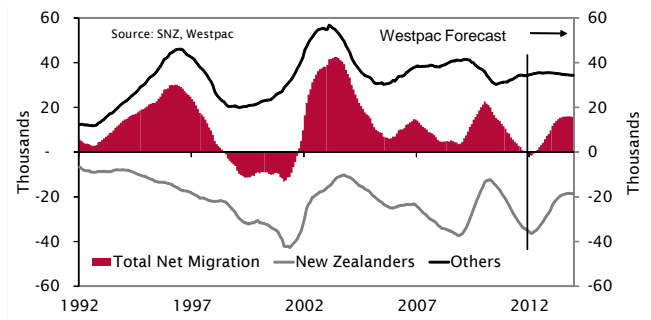
- **New Zealand net immigration has fallen to decade lows as an increasing number of Kiwis have left for Australia.**
- **We expect net immigration to pick up strongly over the coming year as the Australian labour market cools and New Zealand employment prospects pick up.**
- **That's likely to add to housing market and construction cost pressures, though rising interest rates should keep a lid on house prices.**

New Zealand's population growth has slowed sharply this year. For all but one of the eight months to October, more people have left the country than entered it, and there is no sign of the trend slowing. On an annual basis, net immigration turned negative in October for the first time since 2001. The main reason for this slowdown in migration has been a sharp rise in the number of New Zealanders moving to Australia, though low immigration by non-New Zealanders, still well below pre-recession levels, has also played a role. This may have contributed to the cooling of the housing market and general softening in domestic data that we have seen in recent months.

We expect this trans-Tasman tide to turn over the coming year. As we explain in the rest of this bulletin, Kiwi departures depend crucially on employment conditions in Australia (NZ conditions matter as well, but much less). In recent times job prospects in Australia looked good, with the unemployment rate dropping below 5% at the start of the year. But the Australian labour market has already cooled as the non-mining part of the economy has struggled with high interest rates and a high exchange rate, falling house prices, and households anxious to pay down debt. By mid-2012 we expect Australian unemployment to rise to 5.6%. Meanwhile New Zealand unemployment is set to drop steadily as the Christchurch reconstruction effort gathers pace and economic growth accelerates.

On our estimates that's enough to prompt about 11,000 fewer New Zealanders to move across the Tasman next year compared to this year, and about 18,000 fewer in 2013. That's a major change in net migration, summing to about 0.6% of New Zealand's current population. We acknowledge that this isn't the whole story: foreign migration could slow in a renewed global downturn, or receive an additional temporary boost from the need for construction workers in Christchurch. We've taken a middle ground and assumed that foreign migration remains close to current subdued levels.

Figure 1: Annual net migration forecasts



### Implications

A population boost this size has a direct positive impact on economic growth (by boosting the number of consumers) and on the labour market (by boosting the number of people available for work). But it also adds to demand for a limited stock of housing, and it's this channel that's likely to have the biggest consequences for domestic inflation.

A 2007 Reserve Bank discussion paper<sup>1</sup> puts numbers around some of these effects. Looking back over the past 40 years, the paper finds that on average, a spike in migration leads to 1-2 houses being built for every 10 migrants, and a 1% increase in population due to migration has been associated with a temporary 10% increase in house prices over the subsequent 3 years. Taking those estimates at face value, our forecast increase in migration (amounting to a 0.6% population boost) would result in an extra 3 to 6 thousand houses built (to put that in context, about 13,500 housing consents were issued over the past year).

We don't believe the impact on house prices will be quite that strong: in particular, we expect rising interest rates to keep house prices in check over the next couple of years.<sup>2</sup> Even so, rising migration can be expected to add to pressure on rents and construction costs over the next few years, and as such will be closely watched by the RBNZ as it attempts to balance domestic inflationary pressures against ongoing global concerns in the course of 2012.

1 Coleman and Langdon-Lane (2007), 'Housing Markets and Migration in New Zealand, 1962 – 2006', RBNZ Discussion Paper 2007/12.  
 2. On a more technical note, some of our forecast change in migration isn't a 'shock', but reflects statistical persistence in migration; and as the RBNZ authors note, not all of the relationship they identify may be directly causal.

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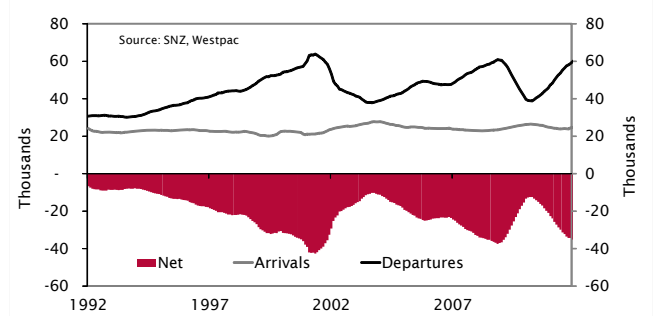
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**The details**

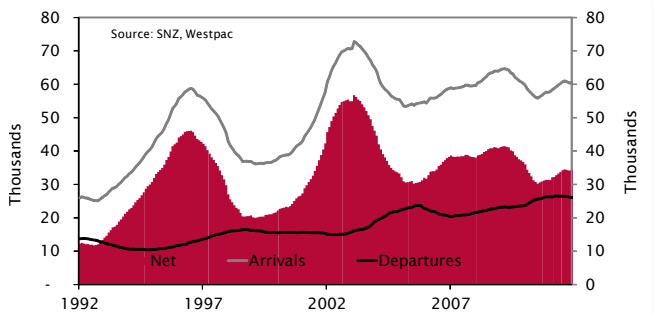
Ever since the late 1960s, living standards in New Zealand (as measured by GDP per person) have fallen behind Australia and behind the OECD average. Small wonder that over that time there's been a consistent outflow of New Zealanders moving offshore, most of them to our closest neighbour. Since the late 1970s net departures by New Zealanders have exceeded 20,000 each year on average – and of those about 18,000 have been across the Tasman. (It should be noted that since the 1990s, skilled migrants from the rest of the world have been more than sufficient to make up for this outflow of New Zealanders: in the words of a Treasury paper, we've seen a 'brain exchange' rather than a 'brain drain'.<sup>3</sup>)

Even today, these two categories – New Zealand departures and foreign arrivals – make by far the largest contribution to total migration. There is also a smaller flow of returning New Zealanders that tends to 'echo' earlier migration flows. Roughly 1/3 of emigrants return to New Zealand within four years, with arrivals lagging departures by about 2 years on average.<sup>4</sup>

**Figure 2: Annual flows of NZ citizens**



**Figure 3: Annual flows of non-NZ citizens**

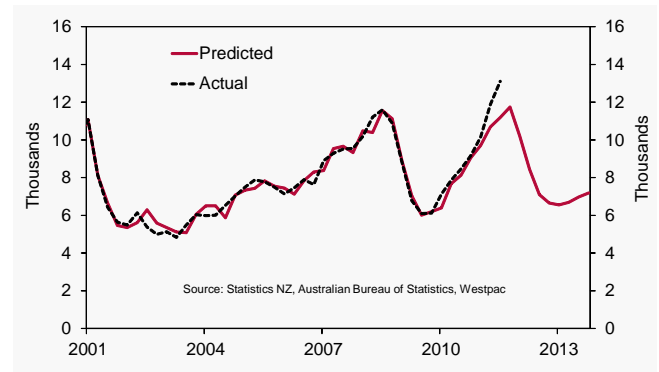


Fluctuations in foreign arrivals have played an important role in the past (think the 1990s wave of Asian students), but in recent years Immigration NZ has actively worked to keep the flow steady. Foreign migration did slow after the 2008/2009 recession, and our assumption is that it will remain below pre-recession levels over the next couple of years. As for New Zealand departures to the rest of the world – primarily the UK – these have trended down over time and are likely to ease further in the next couple of years, in view of continuing low growth and tightened rules for non-EU migrants in the UK.

3. Glass, H and W Choy (2001) 'Brain Drain or Brain Exchange?', Treasury Working Paper 01/22.  
 4 See Poot, J (2009) 'Trans-Tasman Migration, 'Transnationalism and Economic Development in Australasia', Motu Working Paper 09/05.

Unlike foreign immigration, fluctuations in the New Zealand exodus to Australia have been driven by one overarching economic factor: labour market conditions in Australia. That's especially been the case since 2001, when New Zealanders lost the right to Australian social security benefits. Of course local conditions matter too: most recently, departures saw an additional spike this year after the February Christchurch earthquake. But they matter much less than the Australian unemployment rate. We estimated a relationship to explain quarterly fluctuations in New Zealand departures to Australia over the period 2001 to 2010, using both the (detrended) Australian and New Zealand unemployment rates, as well as a lag of departures to capture extra persistence.<sup>5</sup> (We detrended the unemployment rates using a Hodrick-Prescott filter to reflect the downdrift in Australian and New Zealand unemployment over the 1990s: a 6% unemployment rate that would have looked 'low' in the late 1980s would look 'high' now.). As shown in the figure below, the model fits the past 10 years well. We found that while both the Australian and New Zealand unemployment rates are statistically highly significant, a 1 percentage point fall in the Australian unemployment gap directly boosts departures by over 2500 people in the quarter (the impact dies down over time) while an equivalent rise in the NZ unemployment gap only boosts departures by about 800 people in the quarter.

**Figure 4: Actual and predicted departures to Australia by NZ citizens (quarterly, s.a.)**



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5 Strictly speaking, we should be looking at the departure rate, i.e. departures as a share of the population, to control for an upward trend in the number of people leaving over time due to population growth. In practice, it doesn't make a big difference to the estimates.