

WESTPAC ECONOMIC BULLETIN

New Zealand's net migration trends since the Covid-19 pandemic.

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You say goodbye, I say hello.

- Our forecast remains for net migration to turn modestly positive again in the year ahead, settling at around 25,000 people a year over the longer term.
- In this article we delve into the components that make up the migration balance – how they performed during the pandemic, what's happened since the border was reopened, and the outlook for the years ahead.
- While departures of New Zealanders tend to dominate the narrative, they are far from the most important group.
- Foreign arrivals have typically been the swing factor in net migration, and they will be once again now that the border has reopened.

After more than two years of Covid restrictions, New Zealand began to reopen its border to travellers from the end of February. While that was initially limited to New Zealanders returning home, it was soon extended to travellers from around the world, including both short-term visitors and longer-term migrants.

The prospect of the border reopening was met with predictions that the outflow of people would get worse in the year ahead, particularly due to young Kiwis who have been waiting for years to do their 'overseas experience'. While our border rules didn't actually prevent people from leaving, the uncertainty around being able to return home may have held some people back until now.

In contrast, our view has been that the worst is behind us, and that the reopening of the border would see a return to a positive balance in the coming years. Foreign arrivals tend to be the swing factor in the migration balance, and these flows had the most scope to rebound once the border was opened.

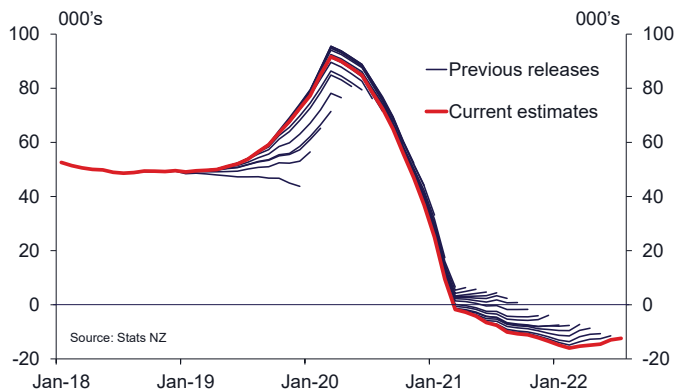
With the July figures released this week, we now have five months of data under our belts since the border started to reopen. And while the provisional data needs to be treated with caution, it appears to back our view. The balance has been improving since March – it's still negative, but less than it was previously. Both departures and arrivals have picked up, but the latter has been stronger and has more room for further gains.

We discussed the outlook for migration as a special topic in our most recent Economic Overview. This article expands on that piece by reviewing the recent history of each of the components that make up the migration balance, and how that history informs our forecasts.

What's happened so far?

Before the pandemic, New Zealand saw an annual net inflow of around 50,000 migrants, which was down from a peak of around 65,000 in 2016. That balance rose to around 90,000 people as arrivals surged higher in the months before the border closure in March 2020. However, many of them weren't recorded as such at the time, but only in later revisions of the data. This suggests that much of this surge was unintentional – they were shorter-term visitors who ended up stuck in the country for more than a year and became classified as migrants.

Annual net migration, with revision history



With foreign arrivals largely cut off after March 2020, the balance of migrant flows fell sharply and had turned negative by early 2021. The current estimates suggest that the net outflow peaked at around 16,000 people in the year to February 2022. But again, these figures can be subject to sizeable revisions as more data becomes available. Based on the size of the revisions to date, that peak outflow could end up at 20-25,000 people by the time the data becomes final.

Despite the string of revisions, one finding has consistently held up: March 2022, the first month of the border reopening, marked the turning point. On a monthly basis, the net flow is still negative, but it's less negative than it was the same time a year ago. That's driven the pickup in the annual balance as shown in the chart above.

In the following charts, we've broken down the migration balance into four dimensions: by direction, and by citizenship (New Zealand and other). These charts show each of the flows on a monthly basis up until July.

One point to note about these charts is that before Covid, some of these flows had a strong seasonal pattern. With the restrictions on people movements since then, it's not clear whether those patterns still apply. Consequently, the figures up to March 2020 are shown in seasonally adjusted terms, and are unadjusted from April 2020 onward. The exception is non-New Zealand departures, which we've adjusted for the usual outflow of overseas students at the end of the year.

New Zealand arrivals: Since the initial Covid lockdown in 2020 was lifted, New Zealanders have been returning home at a steady pace. Indeed, from mid-2020 to mid-2021 the pace of arrivals was close to normal levels, even with the limited availability of MIQ facilities on arrival. A reduction

in MIQ spaces from the second half of 2021 may have been a more limiting factor. However, there hasn't been a discernible lift in arrivals in the months since the isolation requirement was removed.

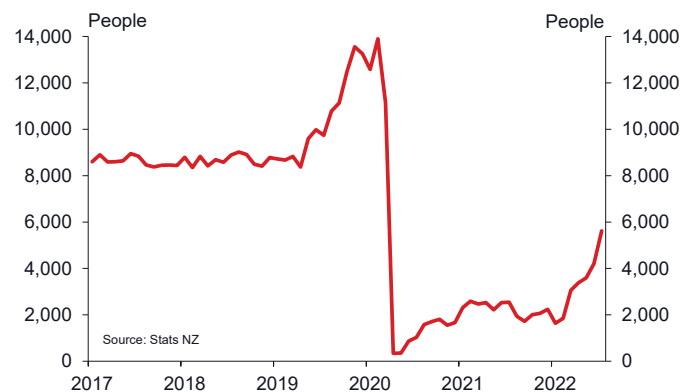
New Zealand citizen arrivals



Non-New Zealand arrivals: Arrivals of Non-New Zealand citizens were the most restricted category during the pandemic, with limited exceptions such as essential workers. This category was also the slowest to be eased up, with the border not fully reopened to all sources (including international students) until the end of July.

However, even with the slow start, arrivals have been climbing rapidly and by July were already around two-thirds of their pre-pandemic average. The lift to date is likely to consist of Australians, seasonal workers and those on working holiday visas, with students set to show up in the August figures.

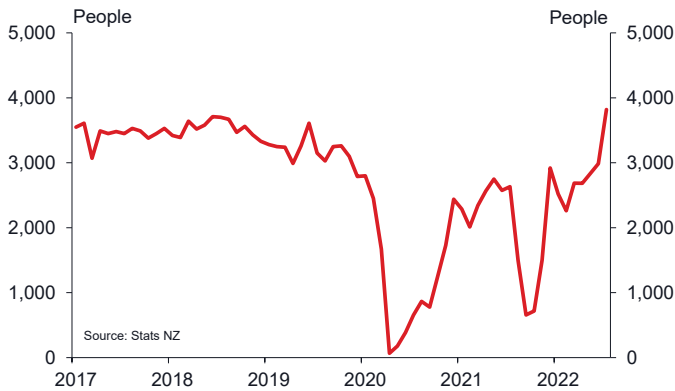
Non-New Zealand citizen arrivals



New Zealand departures: The stories of New Zealanders heading overseas are correct, and no doubt there is an element of pent-up demand that is likely to shine through in the coming months. What's striking, though, is that there had been a sizeable outflow throughout the pandemic. Domestic lockdowns, rather than border restrictions, seem to have been the main inhibiting factor.

It's important to note that 'the OE' accounted for only a small share of departures in the years before Covid; the majority of departures were to Australia. Kiwis have been able to enter Australia since October 2020, and it appears many have done so – at times, outflows of New Zealanders have been close to the pre-Covid pace.

New Zealand citizen departures



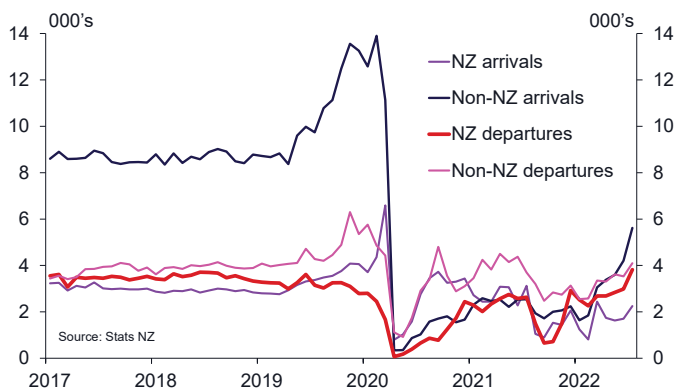
Non-New Zealand departures: Departures of non-New Zealanders have continued at a steady pace over the last two years, as people have returned to be with family, or as their visas have expired. Indeed, the pool of people in the country on temporary visas has been depleted to the point that these outflows are likely to be lower than normal in the years ahead.

Non-New Zealand citizen departures



Finally, we need to keep in mind the relative importance of these groups – you may have noticed the differing axes on these charts. Plotting them all together shows that departures of New Zealanders, despite getting much of the attention in recent times, are nowhere near the most important driver of the migration balance.

Monthly migration flows



Arrivals of Non-New Zealanders were by far the largest group in normal times, and they suffered the most when the border

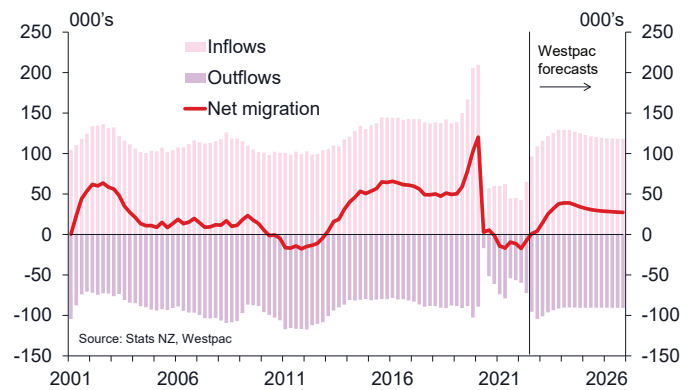
was closed. As such, they account for all (and more) of the turnaround in net migration compared to the pre-pandemic years. They also have the most scope for a rebound now that the restrictions have been lifted, compared to the other groups where the potential pent-up demand to travel has already been diffused to some degree.

So why do the outflows of New Zealanders dominate the narrative? Most likely it's a form of availability bias. We see the people here who have been planning to leave; most of us don't have the same degree of contact with the other groups that make up the balance.

Where to from here?

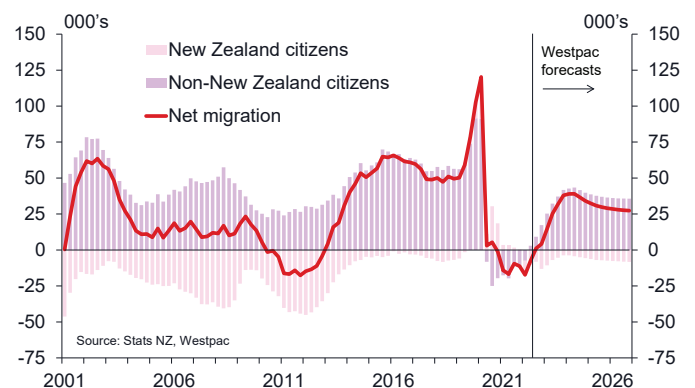
We expect net migration to turn positive again in the years ahead. Migrant flows could overshoot their pre-pandemic levels for a while, reflecting the demand to travel that has been pent-up over the last couple of years. But that applies in both directions, without necessarily dictating the balance.

Migration flows by direction



The majority of flows of New Zealand citizens are between here and Australia, so relative job prospects will play a crucial part in the balance. Both countries are facing extremely tight labour markets at the moment. However, both are also expected to face a softening in demand in the years ahead as higher interest rates bite, so there isn't a compelling case for one market over the other. We expect the net flow of New Zealanders to turn slightly negative in the years ahead, similar to what we saw in the few years before Covid.

Migration flows by citizenship



As we noted earlier, foreign arrivals are likely to be the swing factor again as migrant flows resume. The Government's migration policy 'reset' is a complicating factor here. The intended direction of policy is clear – less reliance on migrant labour than we saw in the years before Covid – but it's hard to put a number on what this might mean in practice. We're assuming a moderate rise in migrant inflows in the years ahead, with the net migration balance settling at around 25,000 per year. That's below the Treasury's forecast of a rise to around 40,000 people a year by 2026.

As a final note, we don't expect that a return to positive net migration will do much to alleviate the overall labour shortages in the New Zealand economy. Migrants add to the supply of labour, but they also add to the demand for goods and services. So while migrant workers will certainly help to address skill shortages in certain sectors, they could add to the pressure on other sectors. Rebalancing supply and demand ultimately has to happen at the macroeconomic level, and that responsibility typically lies with monetary policy.

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