

NZ Forecast Update: Weak migration outlook

15 June 2020



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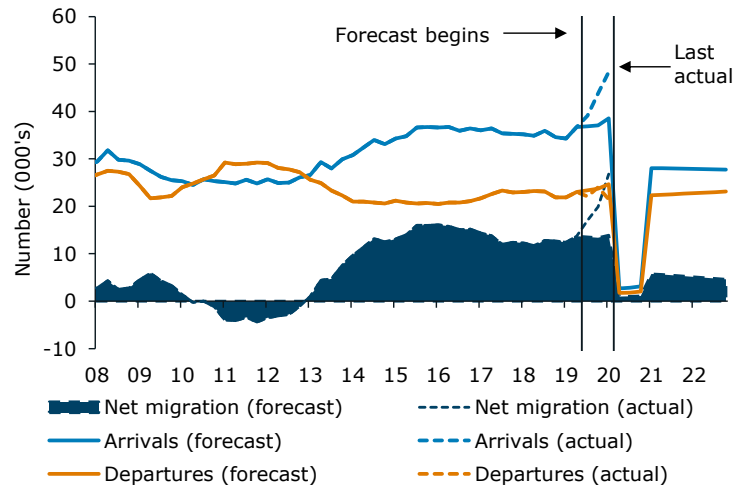
Miles Workman for more details.

Slower population growth ahead

Key points

- This crisis has turned New Zealand's recent model of migration-driven growth on its head.
- The data is **typically noisy**. But in the **near term**, inflows will be extremely low so long as our borders remain closed. Recent policy tweaks are not a game changer. Once borders reopen, we expect net inflows to rebound, but to lower levels than before the crisis (figure 1). Quarantine requirements could present a significant headwind if capacity is not addressed.
- Over the **medium term**, weaker economic fundamentals will see fewer arrivals of overseas citizens. Providing an offset, kiwis are more likely to stay home (or return), but they will not have a strong impetus to spend.
- It'll be a long time before we know where the trend in migration is settling and there are **risks** to the outlook on both sides. How kiwis living abroad are affected by the unfolding crisis, policy, virus developments, the timing of border openings, and quarantine capacity will all be influential.

Figure 1. Net migration outlook (quarterly)

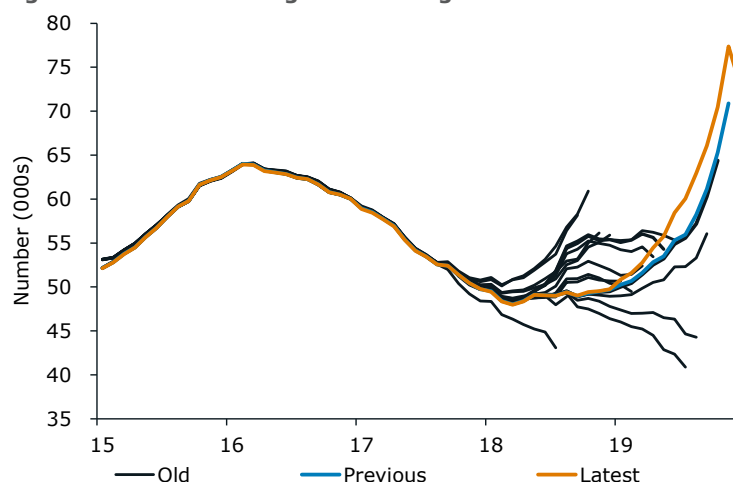


Source: Statistics NZ, ANZ Research

Finding a starting point

The outlook for migration is highly uncertain, and this won't be helped by the fact that these data are prone to wild revisions (figure 2). Looking through the noise, we have taken to forecasting migration with a 3-quarter lag. But that's not to say that the migration pulse won't have some bearing on how the economy evolves over coming years; it just means these data are only really capable of providing historical context to activity that's already been observed.

Figure 2. Annual net migration vintages

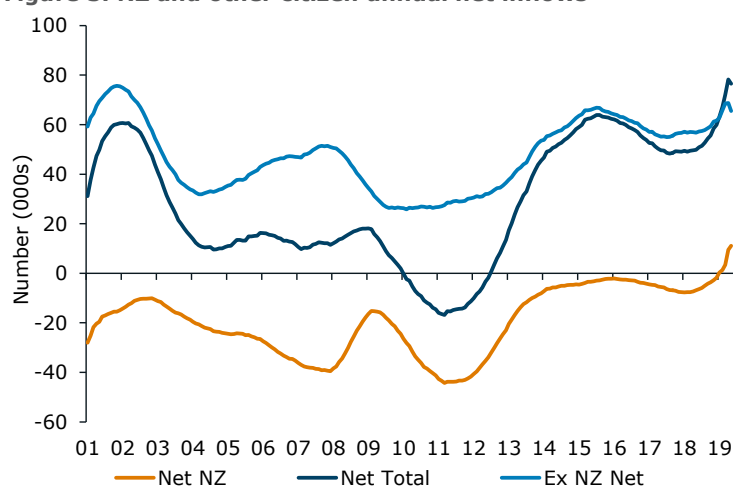


Source: Statistics NZ, ANZ Research

That said, the noise in these data should be temporarily silenced while borders remain closed and short-term visitors (mostly tourists) remain at home. That's because data volatility is a result of Statistics NZ attempting to extract net migration (which we put at around 50k in 2019) from almost 14 million total passenger movements over the year (in normal times that is). But during the months when total arrivals and departures are very low, the room for measurement error will be significantly reduced. For the preceding months, passport monitoring means we'll eventually get an accurate read on migration (ie. those who reside in NZ for at least 12 of the past 16 months).

But there's still pre-crisis data volatility we need to look through. The most recent release (April 2020) shows annual migration accelerating to an all-time high in March 2020. While fewer kiwi departures and increased kiwi arrivals probably were taking place in February and March, we don't think that would be enough to skew the annual profile by this magnitude.

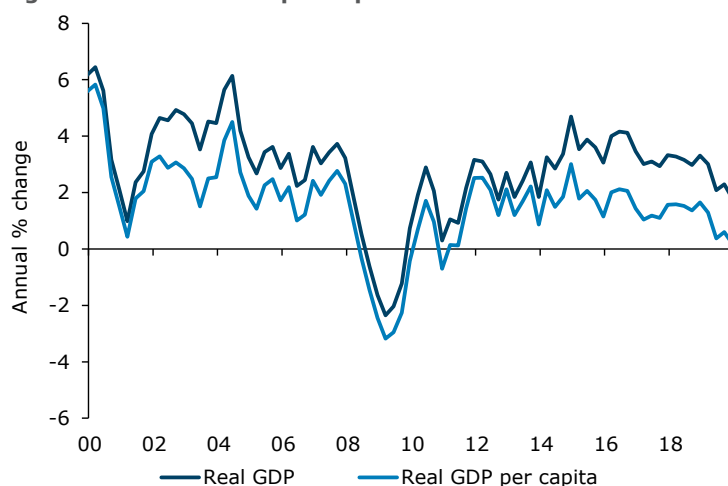
Figure 3. NZ and other citizen annual net inflows



Source: Statistics NZ, ANZ Research

Migration-induced population growth has been one of the most dominant drivers of economic activity in recent years, with per capita GDP growth trailing well below the headline measure (figure 4). This was never a sustainable source of growth.

Figure 4. Headline and per capita GDP



Source: Statistics NZ, ANZ Research

It just doesn't pass the sniff test that economic momentum was slowing before this crisis hit, while net migration was accelerating to new highs. Rather, we suspect the lift in the tail of these data is estimation error that will be revised lower in time.

Near-term outlook: NZ is closed

Turning to the near-term outlook, net migration is expected to remain at very low levels for as long as our borders remain closed (figures 5 and 6). Pretty intuitive really.

Figure 5. Total NZ border crossings arrivals

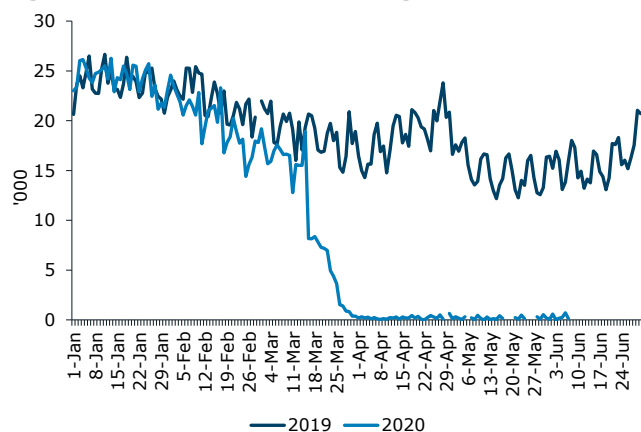
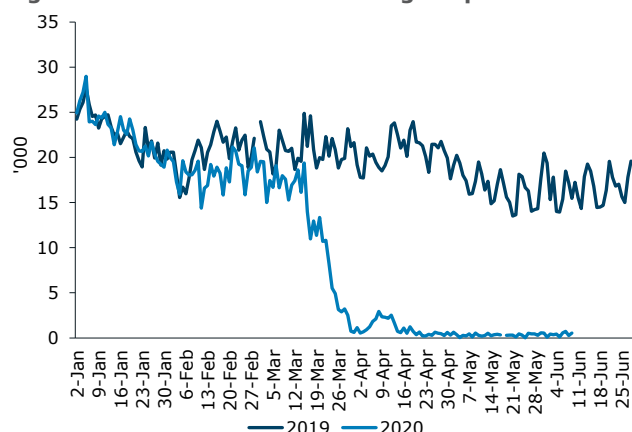


Figure 6. Total NZ border crossings departures



Source: Statistics NZ

Our current assumption is that borders will begin to reopen from Q1 2021, and that will see an immediate, but partial, recovery in net inflows (figure 1). Quarantine requirements and the capacity for that could have a significant influence on arrivals, but so too could the development of a vaccine. We have not made any specific assumption about either. Rather, we have simply assumed that by the time our borders are open, economic fundamentals will be the driving force for net inflows.

Medium-term outlook: The fundamentals

The medium-term economic fundamentals in both NZ and abroad will have different implications for different people.

There will be fewer jobs available in NZ to attract non-NZ citizen arrivals. This will be particularly true in industries like tourism, construction and hospitality. Further, the slow recovery and persistent spare capacity in the labour market will mean that firms previously reliant on migrant labour may be more easily able – or at least will more likely be expected – to find domestic workers, although in some cases retraining will be required.

Given above, we don't think [recent policy announcements](#) to have a significant impact on the migration cycle.

Migrant job losses in NZ (and the lack of a social safety net for many) are also likely to see non-NZ citizen departures lift. This, together with significantly lower non-NZ citizen arrivals, is expected to be the main driver of a significantly reduced migration pulse on the other side of this crisis.

Figure 7. Annual non-NZ citizen flows

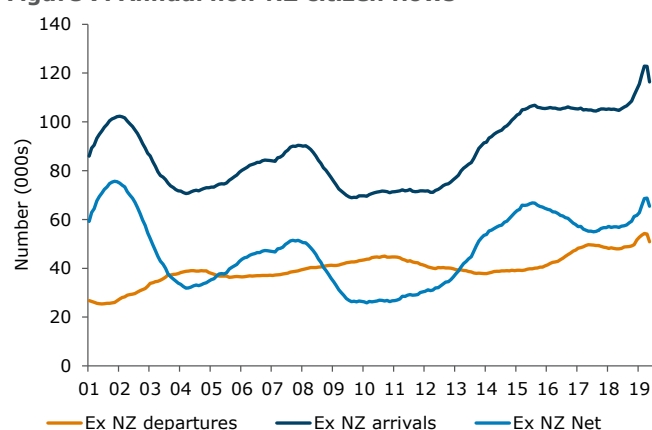
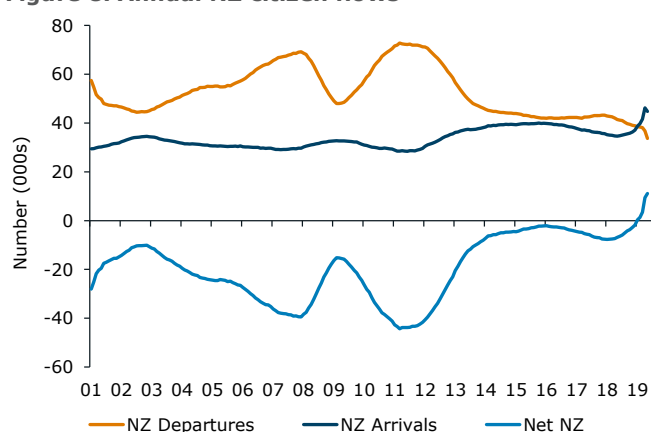


Figure 8. Annual NZ citizen flows



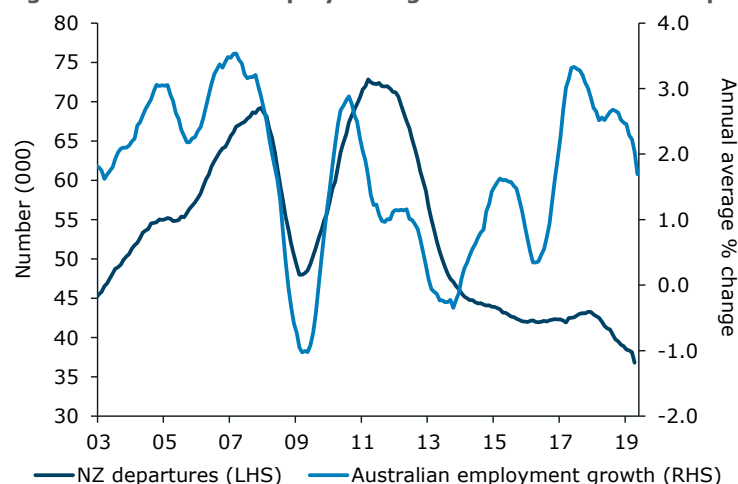
Source: Statistics NZ, ANZ Research

Conversely, net NZ citizen inflows could hit new highs and provide some offset. In fact, they might already be doing so (figure 8), but we'll have to wait for the data to settle down to be sure.

As is typical during a global crisis, fewer job opportunities abroad are expected to keep more kiwis at home. That dynamic is likely to be amplified if health risks associated with travel remain elevated, and the threat of fresh NZ border closures remains. Bottom line: Kiwi departures are expected to fall off a cliff in the near term, and only partially recover once border restrictions are eased. All else equal, that will help put a floor under the decline in net migration.

However, it will pay to keep a close eye on the recovery across the Tasman. A rebound in Australian employment growth has been associated with higher NZ-citizen departures in the past (figure 9). And a trans-Tasman bubble will make the relative economic performance of these two economies a more influential driver than otherwise.

Figure 9. Australian employment growth and NZ citizen departures



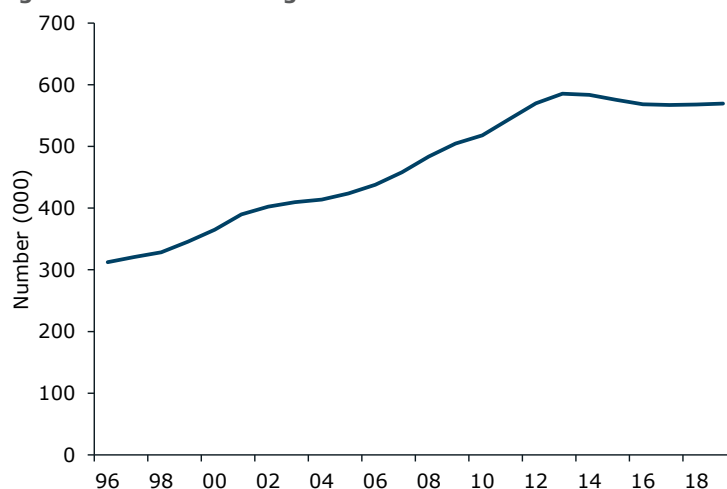
Source: Macrobond

Kiwis losing their jobs overseas and the call of NZ's welfare system should see NZ-citizen arrivals lift. This presents an upside risk to the outlook, but our central forecast isn't for an overwhelmingly large inflow. That said, while we're looking through the tail of these data for now, it's possible there is some signal there.

The exact number of Kiwis living overseas is unknown, but recent communications from Statistics NZ suggest it could be between 600,000 and a million (depending on how you define a kiwi).

A hefty chunk of these kiwis reside in Australia. The Australian Bureau of Statistics estimates that the Australian resident population includes almost 570,000 people who were born in NZ. This figure excludes children born to kiwi parents in Australia, and non-NZ born partners. So the possible inflow is actually much larger. However, we're not forecasting a huge spike in returning kiwis. As figure 10 shows, the number of NZ born in Australia has been pretty stable in recent years, lifting by just 65k over the past 10 years. That means a significant portion of the NZ-born Australian population has probably put down roots. Provided they remain employed, or have the balance sheet to endure the economic pain ahead, they're likely to stay put. There is, after all, around a 25% wage gap between the two countries.

Figure 10. NZ-born living in Australia



Source: Macrobond

Risks on both sides

Should net migration surprise on the upside, it will likely be owing to stronger-than-expected NZ-citizen arrivals. However, we don't expect this will translate into a significantly stronger activity and housing pulse. After all, [they will be coming home to an economy with very weak labour demand](#), so the boost to activity (and the housing market) will be less than is typical.

Downside risks to net migration are closely related to Australia's recovery. Like the mining-investment boom that attracted a lot of kiwi workers, an infrastructure-led boom in Australia could do the same – making it increasingly difficult for the NZ Government to implement its stimulus plans over the coming years. We'll be watching this space closely – or as closely as we can, now there is no departure card information available anymore.

For non-NZ arrivals and departures, it's all going to come down to the domestic skills gaps, and labour market capacity. Given the macro-economic backdrop, it's hard to see non-NZ citizen net migration surprising on the upside. But lengthy retraining processes could keep a few pockets of arrivals elevated.

Overall, the weaker outlook for migration means that the prospect of a population-led recovery is slim. That will put the burden on domestic stimulus and productivity. So far, we've seen nothing on the policy front to convince us that productivity is about to take the reins, so expect a pretty ho-hum performance on the other side. Cutting the fat in the near term does boost productivity – at the unfortunate cost of jobs – but long-run productivity growth requires investment, innovation and risk taking. The Government has certainly stepped up on the infrastructure investment front – which is great to see – but we don't see this more than offsetting prolonged weak business investment.

The details: Quarterly migration forecasts (000s)

	Jun-19	Sepr-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Actual net migration (as at April 2020)	13.7	17.0	19.9	26.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Actual arrivals (as at April 2020)	36.7	39.1	43.8	48.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Actual departures (as at April 2020)	23.0	22.1	24.0	21.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Forecast net migration	13.7	13.5	13.4	13.9	0.9	1.0	1.0	5.7	5.6	5.5	5.3
Forecast arrivals	36.7	36.9	37.1	38.6	2.7	2.8	3.1	28.1	28.1	28.0	27.9
Forecast departures	23.0	23.3	23.7	24.6	1.7	1.8	2.0	22.3	22.4	22.5	22.7

Seasonally adjusted. Figures in bold are forecasts.



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 27 432 2769
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Liz Kendall
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com



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