ANZ Research

NZ Insight: The Reopening

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The Reopening

Summary

- The Government has laid out a pathway towards reopening our borders.
- This is light at the end of the tunnel for NZ tourism, but things may well get tougher before they improve.
- Migration has been low and stable with our borders closed, but that's about to change. We expect to see net inflows gradually lift, but risks are skewed towards a net outflow in the near term.

The plan

The Government has announced the next steps for reconnecting New Zealand to the world:

- Fully vaccinated Kiwis and other eligible travellers can travel to NZ from Australia without staying in MIQ from 11.59pm Sunday, 16 January 2022;
- Fully vaccinated Kiwis and other eligible travellers can travel to NZ from all other countries from 11.59pm Sunday, 13 February 2022;
- All fully vaccinated individuals will be able to travel to NZ from 30 April 2022 onwards, with the re-opening staged over time.
- Travelers that are not required to go through MIQ will require
  - a negative pre-departure test
  - proof of being fully vaccinated
  - a passenger declaration about travel history
  - a day 0/1 test on arrival
  - a requirement to self-isolate for seven days, and
  - a final negative test before entering the community

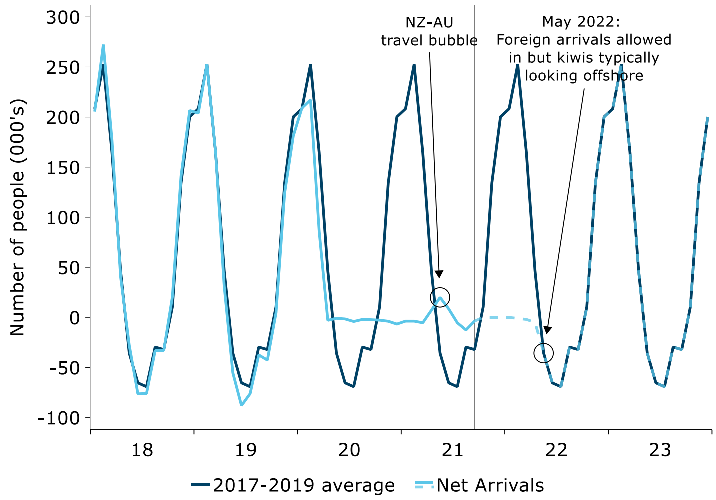
In this short note we discuss the potential economic implications of these changes.

Tough slog to the finish line for NZ tourism

It's no secret that the tourism sector and related industries have been doing it very tough since our borders closed in 2020, and at first blush the timing of border reopening, while great news in an absolute sense, suggests it's going to be a tough slog to the finish line. That's because NZ tourism is very seasonal. Foreign visitors like to come here in the warmer months (when Kiwis prefer to stay home), and Kiwis prefer to go abroad in the colder months (when foreign arrivals typically hit their lull).

To demonstrate, figure 1 shows the typical seasonal pattern for net visitor arrivals against actual outturns to date, with the dotted path showing an assumed reversion to seasonality from May 2022. It's not pretty. Sure, it's possible the summer of 2022/23 is much stronger than usual (pent-up demand), but there simply may not be enough capacity to accommodate that. Further, the seven-day self-isolation requirement is likely to deter many a tourist (it's hard to see an Aussie popping over the ditch for a seven-day isolation and a weekend skiing – those short sweet trips seem very unlikely this coming winter). Those visiting friends and family will find the isolation requirement less of a burden, but these visitors also tend to spend less while they are here. Stepping back, it seems likely this shock will end up accelerating the tourism industry's transition from volume-led growth towards value add, and that's simply not the operating model for some. All up, a reversion to usual seasonal patterns any time soon feels like a very optimistic assumption. The peaks are likely to be lower, the troughs deeper – for a time at least.

Figure 1. Net visitor arrivals: 2017-2019 average vs actual

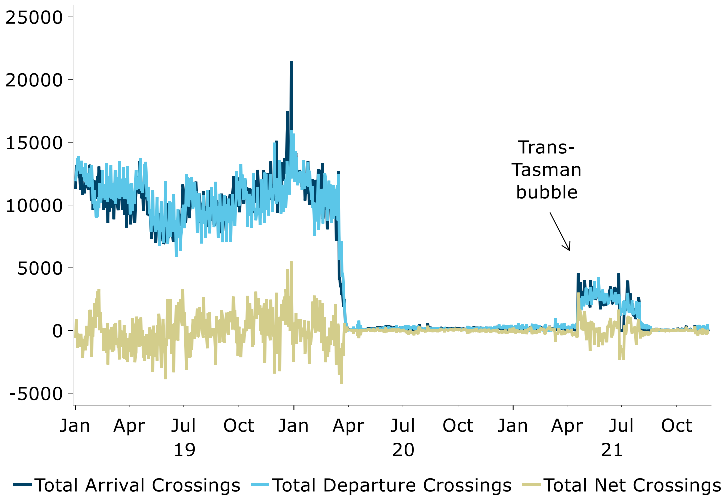


Source: Stats NZ, Macrobond, ANZ Research

It's clear that the 30 April date means NZ tourism Inc will have to endure another peak season without international visitors (lost services exports, in expenditure GDP terms). Conversely, the 13 February milestone is more than early enough to give Kiwis the opportunity to plan their overseas holiday in the winter months (boosting services imports). This is a double whammy for the NZ tourist operator, as having Kiwis stuck in NZ these past two winters has provided a partial offset to lost activity in the summer. For some, that may have been the difference between staying afloat or not. Next winter, however, Kiwis' pent-up demand for international travel means previously intercepted tourist dollars will likely head offshore. In other words, things could get tougher for NZ tourism before they get better.

Another important development is the Australian Government's decision to allow quarantine-free travel from New Zealand to Australia from 1 November. So far, this hasn't resulted in a significant outflow (figure 2), but the lead-up to the 16 January deadline could change that – we're watching closely.

Figure 2. Trans-Tasman daily border crossings



Source: Stats NZ, Macrobond, ANZ Research

From a GDP outlook perspective – which is going to be incredibly noisy in the near term owing to recent lockdown impacts – recent policy developments suggest we'll see a widening services deficit and a little less momentum than otherwise through the first three quarters of 2022. We'll have more to say about the GDP outlook in our upcoming Quarterly Economic Outlook next week. But broadly, this is yet another piece of evidence that suggests that the RBNZ's decision to lift the OCR in considered steps (down the elevator, up the stairs) is the right move.

Overall, NZ tourism at least has some light at the end of the tunnel: the summer of 2022/23. But between now and then, competition for Kiwis' tourism dollars will intensify. It's a good thing the labour market is so tight, as that will hopefully be enough to see the industry though the worst of it and prevent the aggregate demand pulse from losing too much momentum as higher interest rates bite and housing wanes over 2022.

What about migration?

Before we think about how the pathway to reopening might influence migration, it pays to discuss how the RBNZ might think about migration though the lens of its inflation and employment mandates. Net migration inflows add to both aggregate demand and supply, meaning there are offsets to consider. But it can get a little wonky. For example, net inward migration lifts New Zealand's productive capacity by adding to the labour force, which in turn can reduce competition for labour and supress wage growth. All else equal, that would be deflationary. But at the same time, migrants need a place to live and will demand goods and services. All else equal, this adds to inflation.

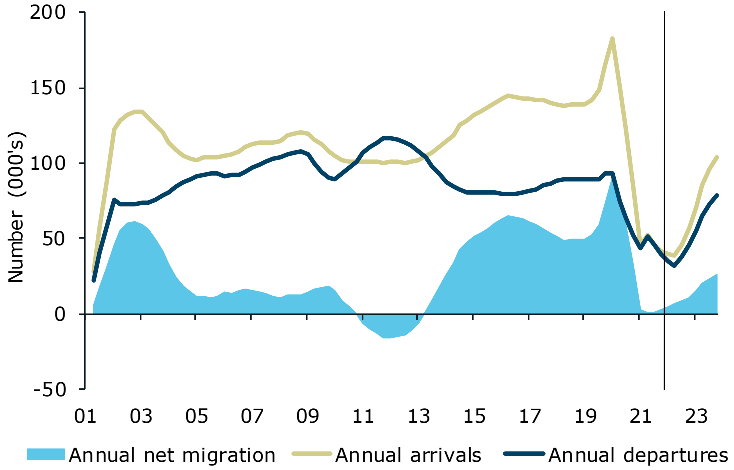
There are many channels through which net migration affects the economy.

- Net inflows definitely add to housing demand (and prices)
- They likely add to business confidence (more people to whom to sell goods and services)
- We could certainly do with more labour supply at the moment. However, in the bigger picture, an endless supply of imported labour could make businesses less likely to invest in labour-productivity-enhancing capital investment that supports real wage growth. However, imported labour is generally at a higher skill level than average, so the consequences for productivity are ambiguous.

- More people means we need more infrastructure. That's more jobs, but also expensive.
- A bigger population base would certainly assist the Government in consolidating the recent explosion in public debt necessitated by COVID-19.

All up, the Government appears well aware of the trade-offs and we wouldn't be surprised if tweaks were made to migration settings that make them a little more restrictive.

Figure 3. Migration assumption



Source: Stats NZ, ANZ Research

Overall, we expect migrant inflows and outflows will lift over 2022 as restrictions are eased (figure 3), but policy changes (which we do not forecast) could dampen arrivals a bit.

Further, with some other economies opening up to foreign visitors earlier than New Zealand, combined with a relatively simple return procedure for Kiwis from 13 February, risks in the very near term appear skewed to a net migration outflow. In particular, when Australia is short of workers we tend to see negative trans-Tasman net migration. If that were to occur, we'd certainly have to play close attention to the housing and confidence implications. But it would also make it harder for firms (which are facing an already-extremely-tight labour market) to find labour, adding to the risk we see a wages and inflation snowball effect.

In other words, it won't be as simple as pointing to a net outflow and saying the RBNZ needs to cut its hiking cycle short. But it'll certainly add to the already-diverse balance of risks.

Education services exports

Education exports (a smaller export class than international travel services, but still significant) should do a little better than international tourism. Trimester 1 is obviously off the table for in-class learning at least, but trimester 2 (around mid-year) could be a goer, particularly if education providers are able to support students through the list of requirements – the seven-day isolation in particular. What's unclear is how many students will be discouraged to study in an isolated country when countries closer to home may be offering fewer restrictions on people flows. Again, this is almost impossible to forecast, but for a $5bn industry it's important.

Overall, the plan to reopen our borders is a very positive development, but the relative freedom given to Kiwis will weigh on net exports and therefore economic activity. It's a good thing the domestic economy is in a very strong starting position so it can hopefully weather that.

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