

Migration

Informing the Debate



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Migration: Informing the Debate

Migration has been a hot topic in the run-up to this year's election and, with a range of political viewpoints being put forward, the team at Infometrics thought we'd do some research to help inform the debate.

Our findings are rather alarming. We may be underestimating net migration by an additional 4,000-8,000 people per annum, implying net migration of closer to 80,000 people per year than the latest official measure of 72,300.

The migration policy changes announced last October are only having a limited effect on arrival numbers. Impending policy changes around minimum salary requirements for skilled migrants could have a severe effect on net migration, and some organisations are worried that the salary requirements will discourage migrants from moving to provincial areas.

And to top it all off, the people we previously considered to be relatively temporary arrivals - students, workers, and tourists - don't appear to be as temporary as we thought. The number of people gaining residence visas from within New Zealand has increased 27% since June 2015.

Against this backdrop of historically high net migration, Gareth Kiernan has estimated an optimal level of net migration we should be aiming for over the next decade of between 10,500 and 16,600 people per annum.

Nevertheless, we do not think we should immediately shut the doors on migrant arrivals. Annual net migration currently stands at 72,300 people and we need to gradually wean the economy off its dependence on migration. It will take at least seven years to bring net migration back down within a 10,500-16,600pa range, and the government should start implementing measures that have this long-term view in mind.

The articles in this report discuss these ideas in depth.

Table of Contents

1. Are we underestimating our migrant numbers?	5
Net migration was severely underestimated in 2003	5
Are we underestimating net migration now?	5
Tourists that fall in love with New Zealand	7
Only two-thirds of workers stay on board for more than 12 months	7
Students know what they're doing	8
Permanent residents pump up otherwise on-the-money resident visa arrival data	9
And then there's New Zealanders themselves	10
By how much might we be underestimating population growth?	10
2. Long-term implications of high net migration.....	11
So what's the real problem?	11
Resident visa approvals are higher than they used to be.....	11
And are kept high by applications from people already in the country	11
Offshore resident visa approvals are declining, indicating future decreases in resident visa arrivals.....	13
Conclusion.....	13
3. Will government rule changes have a big effect on visa approvals?	15
October 2016 rule changes have already affected offshore approvals ...	16
April 2017 rule changes target the biggest category of resident visa applicants.....	16
Which industries are most affected by the changes to work visa rules?.	17
But there is significant backlash from industry stakeholders	18
4. New Zealand research on the effects of migration	20
5. Most people coming from Australia are... Kiwi	22
Why are we so interested in arrivals from Australia?	23
How does Australia rank if New Zealanders are taken out of the equation?	23
What does this all mean?	23
6. Migration's contribution towards a more stable economic performance .	25
New Zealand's population growth in a global context.....	26

1. Are we underestimating our migrant numbers?

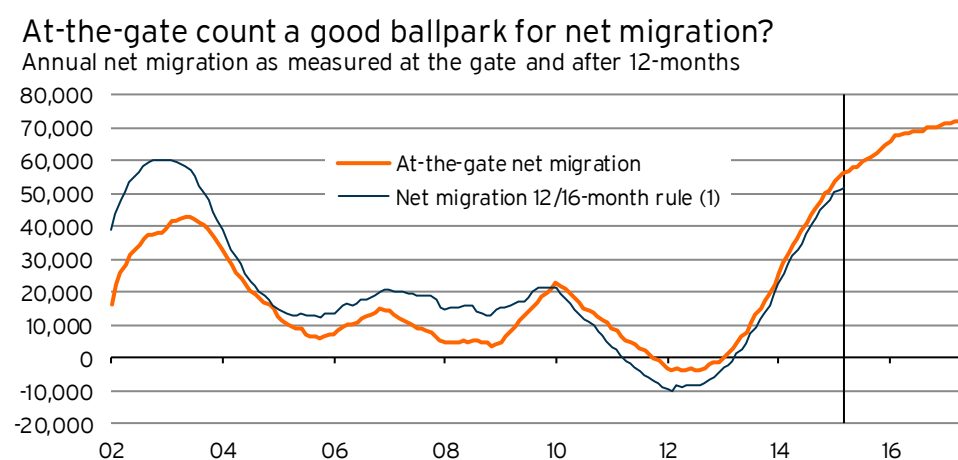
New data from Statistics NZ shows that migration, as we currently track it, is not always representative of true long-term migration. Using this information, we know that net migration in 2003 was severely underestimated. Given current labour market conditions and the attraction for both foreigners and returning New Zealanders to stick around, we believe that long-term net migration could currently be underestimated by 4,000-8,000 people.

Net migration was severely underestimated in 2003

New statistics on net migration show that there is a propensity for people to come to New Zealand as visitors but end up staying long-term. On the flipside, people leaving New Zealand tend to do the same when they travel overseas, and New Zealanders tend to “overstay” to a much greater extent. The net outcome shows that arrival card data was slightly overestimating the number of people adding to New Zealand’s population long-term between 2010 and March 2015.

However, periods of underestimation can also occur and can be in the order of tens of thousands of people. **During the previous migration boom in 2003, net migration was actually 18,000 people per annum greater than initially indicated by arrival cards.** This underestimate added an extra 45% to the number of permanent migrants we thought were entering the country, and made half a percentage point difference to population growth at the time.

Graph 1



Are we underestimating net migration now?

In general, the count of arrivals at the gate underestimates actual long-term arrivals by about 10%. But the extent of this undercounting has reduced over the past decade, representing tighter restrictions around long-term visas. As a result, more people are moving to New Zealand with a long-term visa already in place (and are thus measured as such at the arrivals gate).

(1) The 12/16-month rule defines a migrant arrival as someone who, from the time that they first arrive in New Zealand, spends at least 12 out of the following 16 months in New Zealand. In contrast, someone departing New Zealand is classified as a migrant under the 12/16-month rule if they spend 12 or more months overseas from the point of their departure.

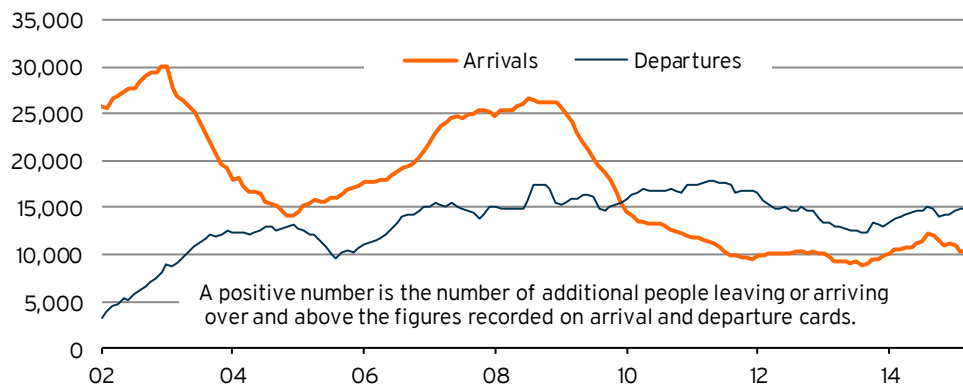
In contrast, the absolute number of people leaving the country as tourists but staying overseas long-term has stayed about the same between 2007 and 2015.

For the first few months of 2015 (which is the last few months of available data), the number of departures was being underestimated by more than the number of arrivals, and the gap between the two was widening. This widening gap means that **at-the-gate figures were overestimating the effect of net migration on population growth** in the March 2015 year, and the number of people coming into the country was a bit smaller than thought (by almost 4,500 people).

Graph 2

How much is it out by?

Difference between at-the-gate measures and 12/16-month rule actuals



But how might at-the-gate migration be behaving relative to the actual long-term movements now?

Tighter visa restrictions mean that fewer people are likely to come to New Zealand without a long-term visa already in place. With a raft of new restrictions around student visas, and the increase in constraints for work visas, at-the-gate arrival figures for these visa categories are less likely to undercount true long-term arrivals going forward.

However, an increase in the propensity for tourists to extend their stay in New Zealand could more than offset this change, at least for the 12/16-month period (see definition in footnote for Graph 1). At the previous net migration peak in 2003, we estimate that just under 20,000 tourists opted to stay here long term, contributing to a 27% underestimation of long-term arrivals using arrival card data.

The undercount of departures from New Zealand has been relatively stable over the ten years to 2014/15. But, instability in global politics within the last 18 months (eg, Donald Trump's presidency, longer wait times to gain citizenship in Australia, and the Brexit decision) might undermine people's ability to obtain solid job offers while on their OE. Despite this risk, we continue to anticipate that 10,000-15,000 people per year will leave the country as tourists but ultimately becoming expatriates.

In summary, owing to the sharp lift in tourist numbers and the number of employment opportunities that entice people to stay, **we're likely to be underestimating net migration.**

The remainder of this article discusses the breakdown of arrivals by migrant status (visitor, student, work, resident, and New Zealander or Australian).

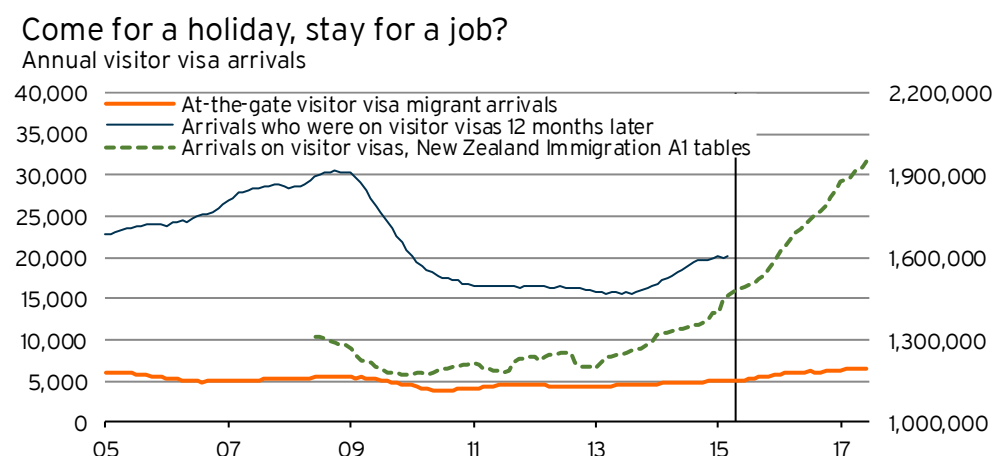
Tourists that fall in love with New Zealand

Tourists who extend their stay in New Zealand are the biggest factor behind long-term arrivals being higher than at-the-gate measures suggest. According to data from Immigration NZ, almost two million people arrived in New Zealand on a visitor visa during the May 2017 year. However, fewer than 6,500 visitors are counted as migrants at the gate because they've indicated intentions to stay for at least 12 months on their arrival card. The rest are generally considered to be tourists.

It appears that more tourists are extending their stays in New Zealand after they've arrived in the country. The new data from Statistics NZ shows that, in the year to March 2015, an additional 15,000 tourists stayed in New Zealand long enough to be reclassified as migrants. Furthermore, the difference between the number of tourists becoming migrants and the number of "visitors" who were first measured as migrants at the arrivals gate lifted since early 2013.

But a [Statistics NZ report on the 12/16-month rule](#) shows that this difference was even greater prior to the 2008 Global Financial Crisis, suggesting that tourists tend to stay in New Zealand for longer in times of economic plenty. Given the strong growth in employment and economic activity we've seen since 2013, the number of tourists staying in New Zealand long-term is likely to have continued increasing over the past two years.

Graph 3



There may also be an additional lift in at-the-gate visitor arrivals as a result of recent rule changes. The April 2017 round of rule changes for skilled migrants means that spouses and children will no longer automatically obtain work and student visas and must be eligible for these visas in their own right. As a result, **we could see an increase in at-the-gate visitor arrivals that might have otherwise been accounted for in at-the-gate work and student visa arrivals.** Spouses and children of skilled migrants can arrive on visitor visas but are likely to switch over to student or work visas once they've established themselves in New Zealand.

Only two-thirds of workers stay on board for more than 12 months

In contrast, a smaller proportion of the people that come to New Zealand on a work visa actually remain here for 12 months or more. There is a gap of 25-39% between at-the-gate work visa arrivals and the number of people that ultimately stay here for 12 months or more in the following 16 months. This result reinforces the idea that a good chunk of arrivals on work visas are essentially tourists doing a spot of holiday work to fund their travel.

Migrants on work visas have been a key driver of growth in migration for the past five years. In the year to June 2017, work visa arrivals made up a third of total arrivals into the country. If we readjust arrival numbers by people's propensity to stay, long-term arrivals on work visas would be closer to 30,000 people per year, rather than 45,000pa, and make up only 18% of all arrivals.

Graph 4

Let's stop overcounting work visa arrivals

Annual work visa arrivals



Students know what they're doing

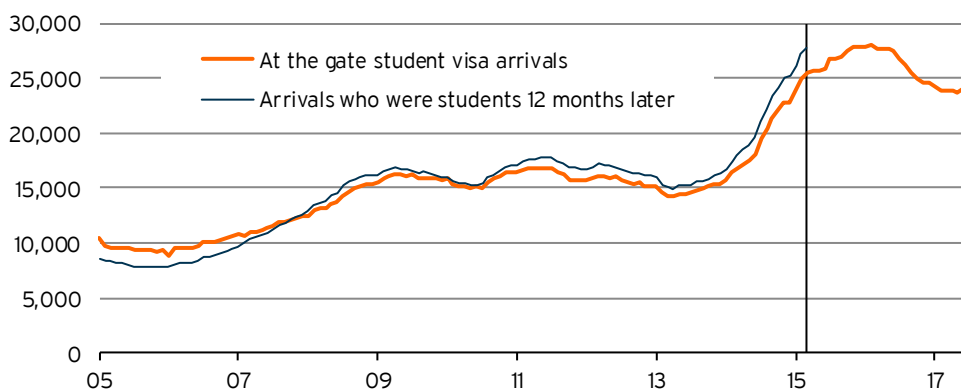
Out of all the arrival statistics, student visa arrivals are the most representative of what transpires over the next 12-16 months. Most students intending to stay in New Zealand for more than 12 months generally do so. This result is unsurprising given that students often have their course plans in place, and therefore know the duration of their study, before arriving in New Zealand.

However, long-term migrant data has been diverging from at-the-gate arrival statistics since 2010. This shift suggests that some students with short-term study plans are extending their stay in New Zealand. These students will not be picked up as migrants initially, but will then be counted as per the 12/16-month rule. In the year to March 2015, the difference between the at-the-gate count of student migrants and the number of students staying here for 12 months or more was 2,214 people.

Graph 1.5

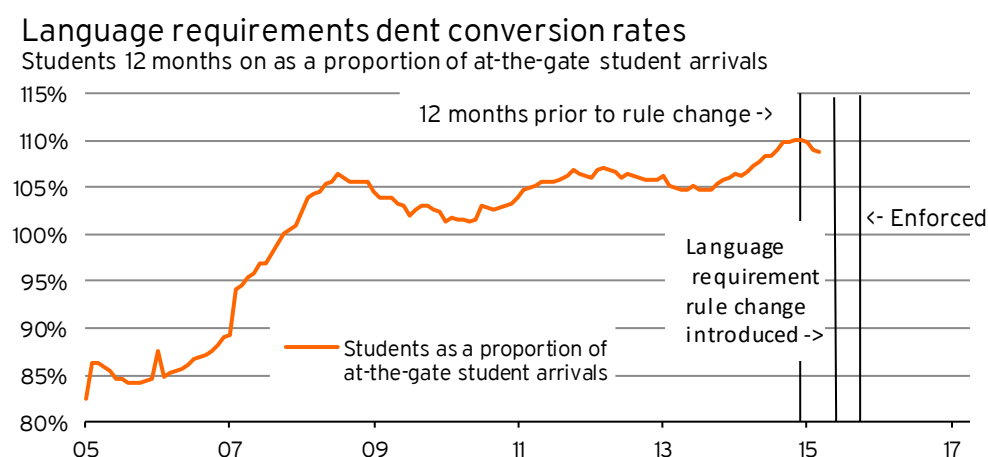
More students try NZ before buying their education

Annual student visa arrivals



Nevertheless, the tightening of English language requirements outlined in June 2015 and introduced in October 2015 looks to have curbed the number of short-term students extending their trips. As a proportion of at-the-gate arrivals, the number of student migrants remaining in New Zealand for at least 12-16 months following their initial arrival date hit its peak in November 2015. The timing of this peak aligns with the idea that, once the rules were changed in October 2015, those who arrived within the year prior (November 2014-October 2015) had more difficulty extending their study visas than previous applicants (see Graph 6). We believe that the proportion of short-term student arrivals extending their stay (beyond 12 months) is sliding back to its 2013 level when regulations were more restrictive.

Graph 6



One limitation of the 12/16-month rule is that it only tracks a person's travel for 16 months after their arrival in New Zealand. Although this gives us a clear indication as to how many people are staying here for more than a year, it does not tell us whether they end up staying here for two years or more.

Secondly, this data categorises arrivals based on the visa category under which they first entered New Zealand. Thus we don't capture the subsequent pathways that arrivals take after they get their student visa. The number of students (or visitors) that end up gaining employment in New Zealand and transitioning to a work or resident visa are not captured in the 12/16-month rule.

Recognising these limitations, and the scope for migrants to enter the country on a student visa but to then transition to other visa types, we have looked further into resident visa data in another article [here](#).

Permanent residents pump up otherwise on-the-money resident visa arrival data

Prior to 2011, when the permanent resident visa category was introduced, most resident visa holders arriving in the country tended to stay for the next 16 months - which is unsurprising given the restrictions around travel for resident visa holders.

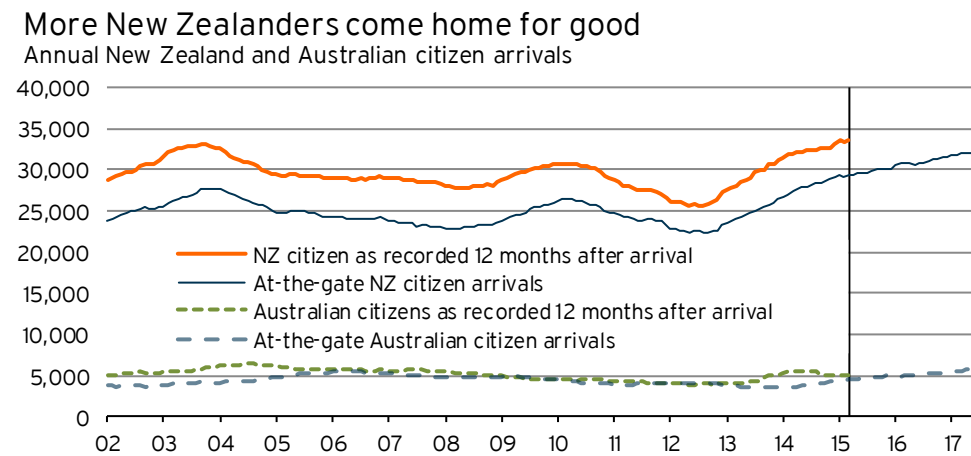
A definitional change in 2011 and the introduction of the permanent resident category makes it difficult to compare 12/16-month stay data to arrival card data. [Permanent resident visas are available to people that have held a resident visa for two years or more](#). The addition of this category resulted in an upward level shift in the total number of people arriving on resident visas.

However, whichever way we look at the data, we have noticed a general decline in the proportion of people still in New Zealand on their resident visas 16 months after arrival. This trend really began to take hold in late 2014, despite at-the-gate arrival measures increasing further since.

And then there's New Zealanders themselves

According to Statistics NZ, New Zealanders visiting home often indicate a short length of stay when, in reality, they end up staying for good (or at least more than 12 months). This trend might have blown out over the past year given favourable labour market conditions and some sectors crying out for workers, but it is unlikely to outweigh the overestimation of work visa arrivals.

Graph 7



By how much might we be underestimating population growth?

Given current labour market conditions and the attraction for foreigners and New Zealanders alike to stick around, arrival card measures are probably underestimating net migration's contribution to population growth. This result is most alarming given that at-the-gate measures already put net migration at 72,305 people for the year to June 2017. Excluding the effects of recent changes to visa requirements, the difference between the at-the-gate measure and actual long-term net migration could be in the ball park of 4,000-8,000 people - not quite as big as the undercount in 2003, but still representing an additional 6-11% on current record-high net migration levels.

Our next chapter talks about the implications of strong net migration. Most people gaining New Zealand residency are already here on other visas, and with the tightening of resident visa rules in October, resident visa approvals are now even more skewed toward onshore applicants.

2. Long-term implications of high net migration

New Zealand has gained around 72,000 more people in the past year according to arrival card data, and we're feeling the strain of squeezing all these extra people into our cities. But further analysis of visa data suggests that there are longer-term implications for these high arrival levels that, if left unchecked, could pose a problem for policymakers when we come off the high point in the business cycle.

So what's the real problem?

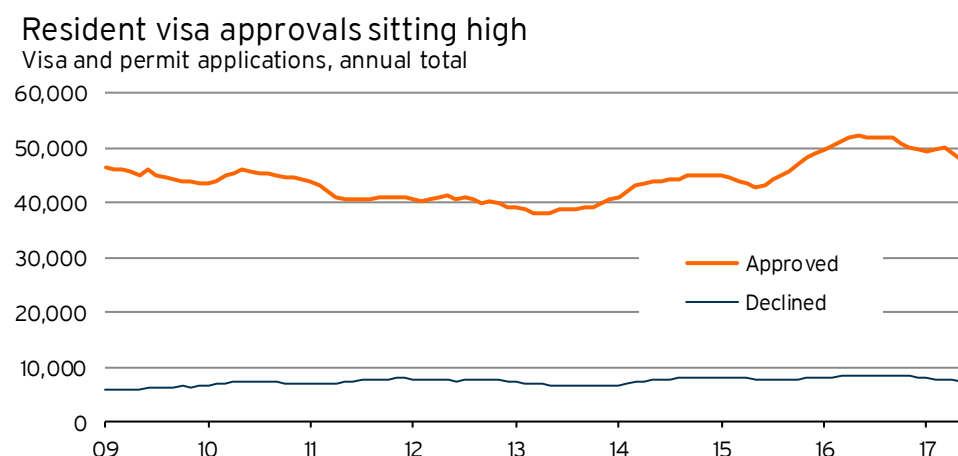
A big chunk of the lift in net migration over the last four years is due to people that government policy doesn't have any controls on - Kiwis and Aussies coming from the other side of "the ditch". But delving into the numbers a bit more shows that **perhaps we should start tightening up on pathways to residency, particularly if we think about what New Zealand might look like when the business cycle enters into a downturn.**

The main issue is the number of people that will have license to stay in New Zealand when we hit a downturn and employment growth dries up. The number of arrivals on resident visas is one indicator of how many people can stick around, but there are more round-about ways for people to get permanent residence - and those pathways are the ones we're concerned about.

Resident visa approvals are higher than they used to be

Between the end of 2012 and June 2017, annual resident visa applications have lifted 19% and approvals have risen by 21%. These increases occurred in two bursts in late 2013 and in mid-2015, but the number of people who had their visa or permit² applications declined has held stable at 7,500-8,500pa since 2011.

Graph 8



And are kept high by applications from people already in the country

Breaking visa approval data down by where people applied for their visas shows that **the vast majority of people applying for resident visas are already in New Zealand.** People applying for resident visas from onshore could already be here on

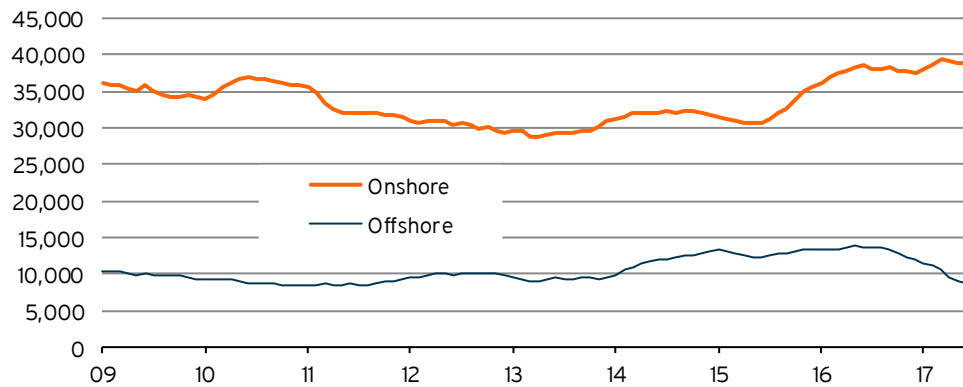
² Permits were largely phased out by September 2013.

a work visa, student visa, or partnership visa, or they could be visitors who have decided that they want to stay (and have been allowed to).

Graph 9

Most people gaining residency are already here

Visa and permit approvals, annual total



Growth in resident visa approvals is also stronger for onshore applications. The number of people who have been approved for resident visas that have applied from within New Zealand may have only increased 1.2% over the year to June 2017, but it has climbed 27% since June 2015.

The size of onshore visa applications relative to offshore applications highlights **that arrival card data will not be completely representative of the number of people that end up staying in New Zealand long term**. Migration is generally measured by arrival and departure cards. People who come into New Zealand with a resident visa will be counted, but people who became residents from within the country are usually counted in terms of the visa on which they arrived in the country.

As a result of using arrival card data to track migration, **people arriving on student visas were initially thought to be somewhat temporary as migrants**. There was an assumption that people who come here to study would generally return home at the end of their coursework. But the lift in onshore visa approvals 18 months after a lift in student arrivals suggests that a proportion of student arrivals might be more permanent than previously thought (see Graph 10).

Between 2013 and 2015, the number of students coming to New Zealand each year rose from 15,398 to 27,868 - an additional 12,500 people per year. Factoring in an 18-month period for people to transition from study into work, between mid-2015 and mid-2017, the number of people approved for visas from within New Zealand rose from 30,785 to 38,982 - an additional 8,000 people.

Without knowing the previous visa status of residence applicants, we cannot say for sure that this lift in onshore approvals was driven by the lift in student arrivals. But **we think it is worth considering the effect student arrivals might have on future resident visa applications**. If students are a key driver of onshore applications, the [tightening of English language requirements](#) for international students in late 2015 could lead to a decline in onshore resident visa applications during the rest of 2017 and 2018.

Graph 10

Are students staying on to become residents?

Student visa arrivals vs. onshore resident visa approvals, annual totals



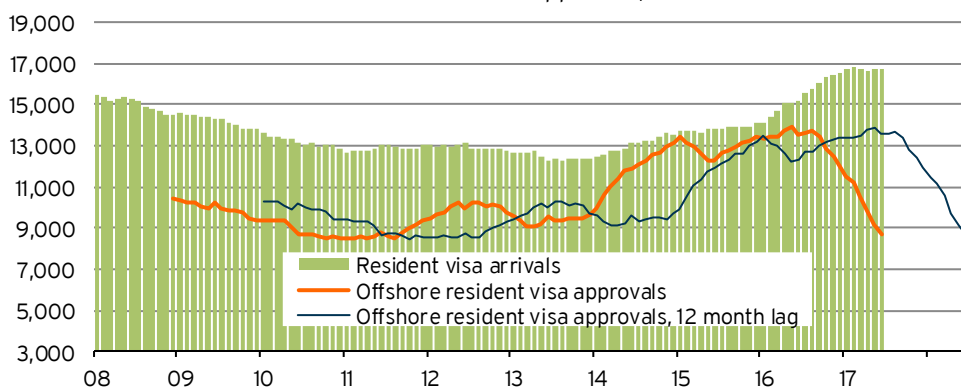
Offshore resident visa approvals are declining, indicating future decreases in resident visa arrivals

Approval data suggests that resident visa arrivals are set for a sharp decline. The number of people applying for resident visas from offshore has dropped 32% since rule changes were put in place in October last year. We estimate that the number of offshore resident visa approvals precedes resident visa arrivals by about 12 months, as applicants take time to prepare for their move once they've been approved. This lag means that the fall in offshore applicants has yet to really affect resident migrants as measured by arrival card data.

Graph 11

Resident visa arrivals in for a sharp decline

Resident visa arrivals vs. offshore resident visa approvals, annual total



Furthermore, this drop-off in offshore resident visa approvals indicates that fewer people will become migrants using direct channels. Rising numbers of work visa arrivals, still-high numbers of people coming here on student visas, and elevated approvals for onshore visa applications all suggest that people applying for residency from within New Zealand are less affected by the rule changes.

Conclusion

A large proportion of people who apply for resident visas apply from within New Zealand, meaning that arrival card data doesn't adequately record how many people are staying in the country long-term. Migration policy needs to carefully

consider student and work migrants as potential residents and be appropriately tailored to focus on possible pathways to residency.

In the following chapter, we discuss the government's October 2016 and April 2017 rule changes regarding resident and work visas. We break down resident and work visa approval data by applicant and occupation categories respectively. This breakdown gives some clues about how which these rule changes might affect the New Zealand labour market.

3. Will government rule changes have a big effect on visa approvals?

The government has been successively tightening the rules for resident visas since October 2016. The purpose of these rule changes ostensibly is to reduce the number of people moving to New Zealand while not cutting off the supply of workers for our overstretched labour market. But each set of rule changes will have very different effects for migrants on work and resident visas. In this article, we outline the rule changes and discuss the implications of these changes for migration numbers and industry stakeholders.

October 2016 rule changes

- **Parents** are no longer able to get resident visas via their child's visas - they must obtain the visa in their own right.
- **Families:** there is a quota on the number of people that can move to New Zealand under the capped family visa category. In October 2016, this quota was reduced from 5,500pa to 2,000pa for the June 2017 and 2018 years.
- Points requirements for **skilled migrant applicants** were lifted. *Skilled migrant visas are a subset of the resident visa category.*

April 2017 rule changes

To be implemented August 28.

Applicants for residency under the skilled migrant category

- The government proposed that skilled migrant applicants must prove a salary of over \$49,000pa.
- **There are two other remuneration thresholds affecting potential skilled migrants:** an annual salary of \$73,299 will put a migrant up for consideration as a skilled migrant even if they don't fit in an accepted skill level category. An annual salary equal to or over \$97,718 will gain an applicant bonus points for a skilled migrant resident visa³.
- **More points will be awarded for work experience and education,** particularly skilled work experience in New Zealand and in ANZSCO skill level 1, 2, and 3 occupations. Migrants with masters and doctorate degrees have access to more points, but points for their partners will be determined by their partner's own level of education.
- **People in the 30-39 year age group will have access to more points.**
- **Spouses and children of skilled migrants** no longer automatically receive work or student visas because their partner/parent is a skilled migrant. They must apply and be approved in their own right; otherwise they can come to New Zealand as visitors for three months.
- Selection from expressions of interest submitted after July 19th 2017 (to become a skilled migrant) have been put on hold until further notice.

³ Remuneration thresholds will be updated annually based on New Zealand income data.

Other (mostly work visa-related) policy changes

- **Pay band-related regulation has also been announced for Essential Skills work visas.** Migrants earning under 85% of the median New Zealand income (currently \$41,538), will be classified as “lower-skilled” and subject to a 12-month stand-down period after three years. Migrants earning more can remain in New Zealand on an essential skills work visas if they earn between \$41,538 and \$73,299 and work in an ANZSCO level 1-3 occupation or if they earn above \$73,299.
- **Seasonal workers** will only be able to stay in New Zealand on their work visa for the duration of their work, rather than the full year.
- **A total of 4000 South Island temporary (work) migrants** have been given the option to gain residency if they stay in their region and industry for the next two years.

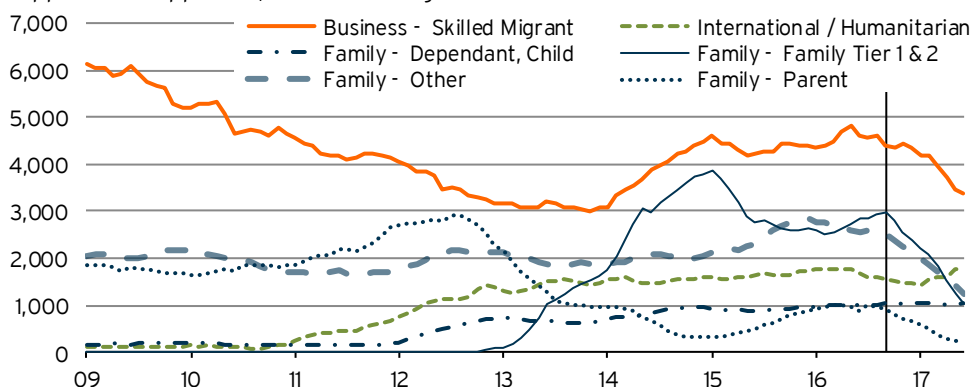
October 2016 rule changes have already affected offshore approvals

Most of last October’s rule changes were targeted at family resident visa categories. Since then, there has been a sharp drop in offshore visa approvals across all family visa categories except dependent children. This drop-off will stabilise by October next year, with future declines under these rule changes unlikely.

Graph 12

Widespread drop in offshore visa approvals

Applications approved, annual running total



Prior to the rule change last October, a tailing-off in skilled migrant visa approval numbers was already occurring. The increase in points requirements for skilled migrants will only just be starting to affect skilled migrant approval numbers now. Due to the procedure for applying for resident visas, the people that had already been invited to apply for residency before October will not have been rejected on the basis of the change in points requirements. **It is unknown as to why offshore applications for skilled migrant visas was already declining before the rule changes were introduced.**

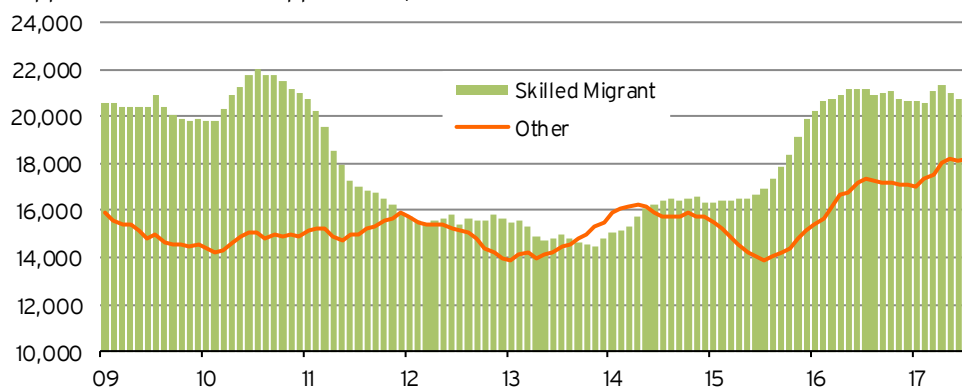
April 2017 rule changes target the biggest category of resident visa applicants

Skilled migrants are the biggest subcategory of both onshore and offshore visa applications, but 86% of skilled migrants apply from within New Zealand. **Skilled migrants made up half of all resident visa approvals in the year to June 2016 and are the main target of the April 2017 rule changes.**

Graph 13

Most onshore applicants are skilled migrants

Approved resident visa applications, annual total

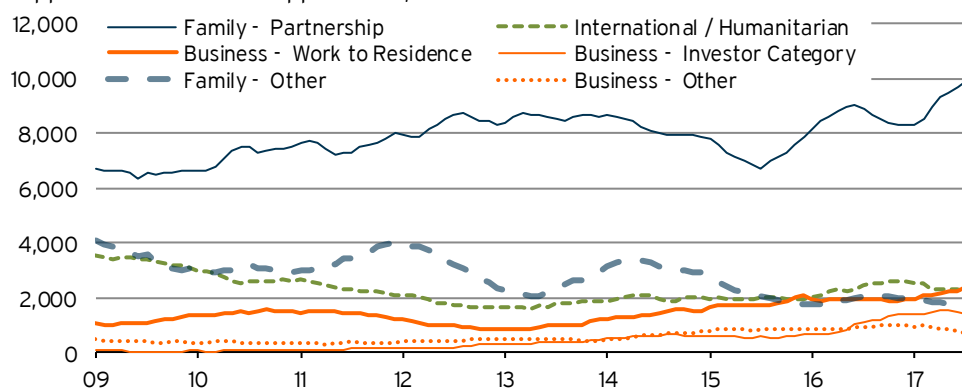


The second-biggest contributor to onshore applications, and less than half the size of skilled migrant applications, is people coming here on partnership visas. Over the year to June 2017, 9,919 people were approved for partnership visas to be residents in New Zealand. The effect of resident visa rule changes will have no direct effect on the partnership visa count, but if fewer people are approved for skilled migrant visas, it is likely that fewer people will be eligible for the associated partnership visas.

Graph 14

Partners next in line

Approved resident visa applications, annual total



There has been a gradual lift in work-to-resident visa approvals since 2013, but the April rule changes do not tighten restrictions for workers using this pathway to residency.

Which industries are most affected by the changes to work visa rules?

The number of people arriving on work visas has climbed steadily since late 2010. In the year to June 2017, the number of people arriving on work visas was up 10% from a year earlier. But the rule changes around temporary migrant visas only affect those in the Essential Skills category (as opposed to those on working holiday visas, who presumably make up most of [the people that leave New Zealand within 12 months](#)). Essential Skills visa applicants made up 15% of all work visa approvals over the year to June 2017.

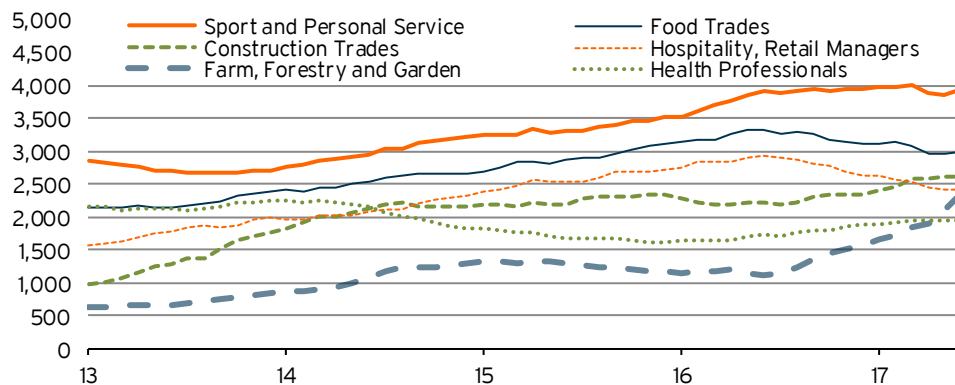
Essential Skills work visas currently allow workers to live and work in New Zealand for up to three years, with the option to reapply for the same visa at the end of the period. The rule changes proposed in April require those earning under \$41,538, or earning under \$73,299 in an occupation not classed as being ANZSCO level 1-3 (a measure of skills), will face a stand-down period of 12 months before they can reapply for a new work visa.

Breaking Essential Skills work visa approvals down by occupation suggests that the sport and personal services sector is most exposed to the April rule changes, followed by the hospitality and food industry. Given the high proportion of people on work visas whose occupations are in low-paying industries such as hospitality and personal services, the new income thresholds could affect thousands of applicants if they are hoping to stay in New Zealand on work visas for more than three years.

Graph 15

Top six essential skills occupations

Annual total essential skill work visa approvals by occupation



According to Immigration NZ, between 38% and 46% of Essential Skill visa holders will be classified as “lower-skilled” purely on the basis of their low salaries. These figures equate to 9,700-11,800 people here on Essential Skill work visas. In addition, just over 11,000 people do not even have the qualifications to hold their Essential Skills visa for more than three years, except the few that earn above \$73,299pa.

We know that only two-thirds of people arriving on work visas stay for more than a year, suggesting that some firms are used to training new staff on an ongoing basis. However, the three-year time limit poses an ultimatum for business owners regarding migrants on work visas - either train them to a skill level justifying a \$41,538pa salary or be prepared to let staff go within three years. As remuneration can differ regionally and across occupations, this salary restriction may curb some of the foreign labour supply to regions and direct more migrants to the cities where they are better able to obtain higher-paying jobs. Minimum salary requirements may also raise the overall cost of employing workers in some areas, encouraging employers to adopt increased automation to achieve growth in output and boost worker productivity.

But there is significant backlash from industry stakeholders

The October 2016 rule changes affect a small group of resident visa applicants and, as a result, were met with very little complaint. In contrast, April’s proposed rule

changes apply to a large proportion of resident and work visa applicants and have attracted significant backlash from industry stakeholders.

Stakeholders have argued that the minimum salary requirement is a blunt instrument that would disproportionately hamper labour-starved regions. In terms of temporary work visas, the minimum salary requirement is determined by the median New Zealand income. But average salaries in provincial areas are typically below the nationwide median, while urban areas tend to offer higher-paying jobs. Where a region sits relative to this 85% of the median income line will affect the flow of migrant labour into these areas.

Although we agree that high skilled remuneration bands better acknowledge high value-adding workers, we think that the salary-based definition for low-skilled work might create unwanted ructions in the New Zealand labour market. At the same time, it is difficult to offer alternative policy solutions in this case, with area-based salary requirements likely to be an administrative headache.

We recommend that the government reconsiders implementing its lowest remuneration band for work visas, but retain the remuneration bands for skilled migrant residency applications. Retaining salary restrictions around resident visas is still blunt, but represents a minimum skills requirement for people intending to remain in New Zealand long term. The idea behind this policy is that the more skills you have, the more you can contribute to New Zealand's productive output, and that you are less at risk of unemployment.

In contrast, work visas should remain an option for people staying temporarily in New Zealand, with minimum skill or income requirements being less important. People in New Zealand on work visas will tend to stay only as long as there is work available, regardless of the region.

In the following chapters, we discuss the effects that the migrants we can't control (New Zealanders and Australians) have on net migration, and how we should target net migration as a whole.

4. New Zealand research on the effects of migration

There has been a significant body of research over the last decade into the effects of immigration on various aspects of the New Zealand economy, much of it done by Motu, as well as the Reserve Bank, Treasury, or in conjunction with the Ministry of Business, Innovation and Employment. Some of the key findings from this research include the following.

Research on the effects of migration on the New Zealand housing market is mixed.

A lift in migration flows equivalent to 1% of the population could push up average house prices by between 6% and 12%, with the effects of an increase in arrivals greater than an equivalent decrease in departures. Returning New Zealanders have a greater effect on house prices than changes in the number of foreign immigrants. However, regional analysis suggests that much of the correlation between net migration and house price movements might be caused by other factors (such as economic growth or income growth), rather than there being a strong causal relationship between migration and house prices.

A lift in net migration might have a large positive effect on house prices in the short or medium-term due to delays in the response of the residential construction sector to increased demand for housing and/or more optimistic expectations about future property values. In our view, a lack of capacity in the construction sector because of very low levels of activity following the Global Financial Crisis (GFC) suggests that the relatively limited response in residential building has been a significant factor in the house price boom of the last five years.

Migrant networks are an important factor when foreign immigrants are choosing where to settle in New Zealand, despite this country's skills-focused migration system. Labour market opportunities become a more important factor the longer that the migrants have been in New Zealand. In this regard, the fact that Auckland has a high proportion of immigrants potentially becomes self-reinforcing, placing stress on the region's housing market, civil infrastructure, and education and health services.

Migrants to New Zealand face an initial entry disadvantage in terms of both their employment rates and wage rates compared with equivalent New Zealand-born workers. This disadvantage reduces over time for some immigrants. Less-skilled migrants tend to suffer continued lower employment and wage rates than comparable NZ-born workers, but these labour outcomes are still likely to be superior to the opportunities available in these migrants' home countries.

Higher net migration inflows do not have a significant negative effect on employment or wage rates for NZ-born workers, but instead negatively affect the labour market outcomes of other recent migrants. The implied boost to aggregate demand from increased net migration appears to improve employment and wage rates for NZ-born workers, particularly those in the medium-skill subgroup.

There is no evidence that the increase in temporary migrants over the last 15 years has had a negative effect on labour market outcomes of New Zealanders. This conclusion continued to hold true in the wake of the GFC when the labour market softened but there was less downward adjustment in the employment of temporary migrants.

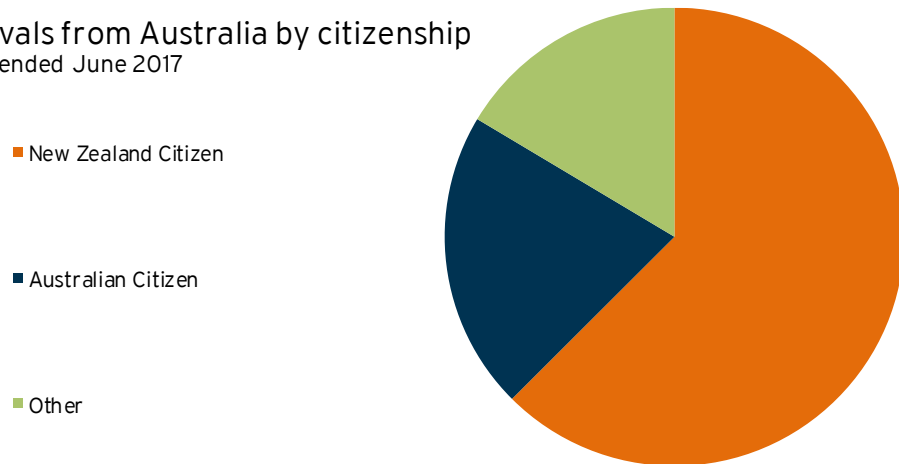
There is little evidence that New Zealand's skills-based immigration policy of the last 25 years has led to improved productivity or living standards across the economy. However, changes to immigration policy last decade appear to have improved the integration of new immigrants into the labour force due to better occupational and skills matching.

5. Most people coming from Australia are... Kiwi

A few months ago, Winston Peters complained that [arrival data used by Herald reporters](#) mistook arrivals from Australia as Australians (spoiler - it didn't). But he did raise an interesting question: who does come over from Australia when they move here long-term? It turns out that almost two thirds of people moving from Australia to New Zealand are, in fact, Kiwis.

Graph 16

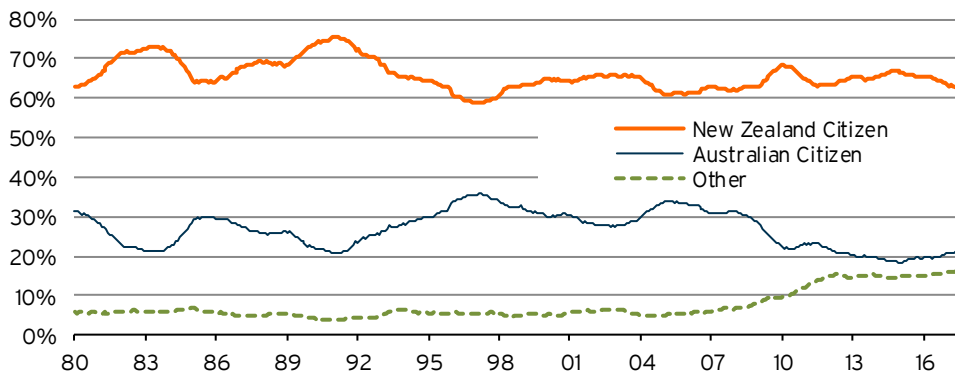
Arrivals from Australia by citizenship
Year-ended June 2017



Interestingly, however, the pool of people crossing "the ditch" has become more diverse over time. At the previous net migration peak in May 2003, New Zealanders and Australians made up 94% of arrivals from Australia, compared to 84% currently). Although the proportion of Kiwis coming over has been more or less the same, the number of Australians moving to New Zealand has not increased quite as quickly over the past decade as the number of people holding other citizenships.

Graph 17

Fewer Australians than ever before
% of annual arrivals from Australia



Up until 2007/08, arrivals of "other" citizens were stable as a proportion of total arrivals from Australia. But since then, the proportion of Australians coming to

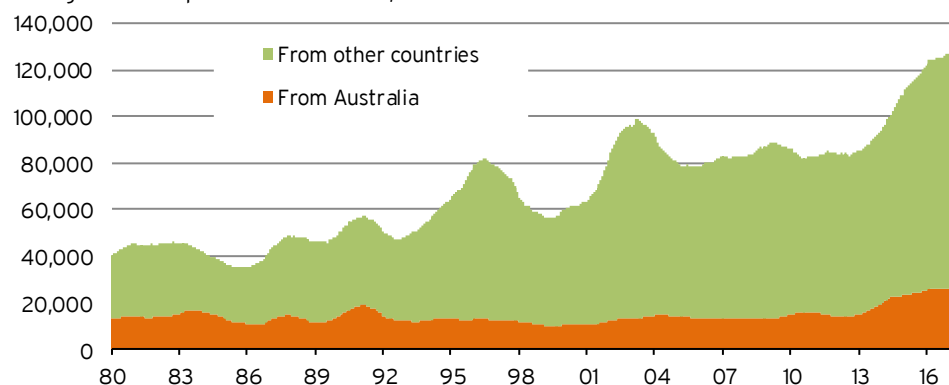
New Zealand has dropped and the proportion of other citizens has risen to fill the gap.

Why are we so interested in arrivals from Australia?

Arrivals from Australia are not something to thumb your nose at. Over the year to June 2017, arrivals from Australia made up 20% of all long-term migrants to New Zealand (as measured at the arrivals gate). In other words, long-term arrivals that are actually returning New Zealand citizens are very significant in terms of overall migration numbers.

Graph 18

Arrivals from Australia make up 20% of the total Long-term and permanent arrivals, annual total



How does Australia rank if New Zealanders are taken out of the equation?

Taking Kiwis out of the equation, Australia is only our third biggest source country for migrants, following China and the UK. But the gap between the top four countries is narrow, with each contributing between 6.8% and 9.1% of total arrivals.

If New Zealand citizens coming through our arrival gates all came from the same place - let's call it "Kiwiland" - that place would overwhelmingly be the largest source country of arrivals. Just over 32,000 New Zealand citizens moved back to New Zealand over the year to June 2017, meaning that arrivals from "Kiwiland" made up a quarter of New Zealand's "immigrants" in the past year.

Contribution to migrant arrivals by country		
% of arrivals (excluding New Zealand citizens) over the year to June 2017		
Rank	Country	Share of arrivals
1	"Kiwiland"	25%
2	China	9.1%
3	United Kingdom	7.7%
4	Australia	7.3%
5	India	6.8%
6	South Africa	3.8%

What does this all mean?

The discussion above highlights a key point that hasn't really been raised in recent discussions about migration: what New Zealanders decide to do has a huge effect on overall migration statistics. Although arrivals from most of the top source

countries is higher than a few years ago, arrivals of New Zealand citizens are at their highest level since at least 1980! And we haven't even begun to look at departures which, for Kiwis, have been at their lowest levels in decades. New Zealanders do only make up part of the equation when it comes to calculating net migration, but it is a significant part that needs to be considered to develop balanced immigration policies.

6. Migration's contribution towards a more stable economic performance

Infometrics estimates that over the coming decade, net migration of between 10,500 and 16,600pa appears to be appropriate to maintaining New Zealand's population growth relative to world growth. However, with net migration currently sitting at 72,300pa, a gradual approach to pulling back the numbers means that it could be seven years or longer before net migration sits within this range.

Over a 50-year horizon, the uncertainties around population growth and broader economic conditions increase. Our estimated average for sustainable net migration over this period lies in the 13,100-21,600pa range. This article investigates these aspects in more detail.

Maintaining positive population growth is an important facet of an economy's performance, at both a national and regional level. For example, an expanding population enables retail businesses to achieve growth without having to rely on each individual customer spending more. However, a shrinking population implies that businesses would need to sell more to each customer over time just to maintain steady revenue. The long-term outcome of this latter trend is for fewer businesses in a town to be viable, reducing the services available to the remaining people, making the town less attractive to live in, and reinforcing the trend of a shrinking population. There are several examples of towns around New Zealand where the population has been stagnant or shrinking for much of the last 30 years, threatening the whole town's long-term viability.

Arguably, the most problematic aspect of New Zealand's population growth over the last 20 years has been the significant swings in net migration. A relatively steady rate of population growth allows planners, policymakers, and private sector decision-makers to appropriately plan for the provision of housing, civic infrastructure, and other necessary goods and services. But New Zealand's population growth has varied between 0.5% and 2.1%pa during both last decade and this decade, making planning decisions that much harder.

Because New Zealand's immigration policies operate independently from overall population growth, migration flows, if anything, tend to exacerbate the economic cycle. Strong economic conditions in New Zealand, particularly relative to Australia, will encourage fewer New Zealanders to head overseas and more to return home, but are also likely to attract more foreigners here to live and work.

Although migration is not the only cause of the current affordability crisis in the Auckland housing market, the fact that population growth in the region has accelerated so much over the last five years has definitely played a role in the housing market's imbalances. The response of monetary policy to the housing market has been limited by a lack of inflation throughout the rest of the economy, which has resulted in interest rates being kept low and forcing the Reserve Bank to implement other measures such as loan-to-value restrictions.

But it is easy to envisage a situation where an earlier tightening in immigration policy resulted in labour supply constraints limiting economic growth as well as feeding into greater cost pressures, more inflation, and tighter monetary conditions (which would help reinforce the slowdown in economic growth). Arguably, in this situation, the housing market would have been prevented from becoming as imbalanced as it has, with weaker demand due to slower population growth and higher interest rates.

In our view, overall immigration, along with each of its subcomponents, needs to be considered within the context of targeting a more stable rate of overall population growth. So, when the net outflow of New Zealand and Australian citizens is small (or, as is currently the case, is actually a net inflow), visa approval numbers across the categories that generally contribute to permanent and long-term arrivals could be scaled back. In other words, there would be fewer resident, work, and student visa approvals during times when population growth was already relatively strong due to the net flows of New Zealanders.

One of the obvious questions posed by limiting immigration when there are plenty of job opportunities and the economy is growing strongly is “what about businesses that are already finding labour difficult to come by?” **Restricting immigration during these periods would push up wages, encouraging businesses towards more investment in labour-saving technology, thereby improving New Zealand’s labour productivity.** The scarcity of workers would also help ensure that labour was directed towards the areas that it was most productive.

During periods of strong demand for workers, the mix of visa approvals could be moved more towards the skilled migrant category, with fewer approvals of student or family visas (which contribute less to the economy’s productive capacity, at least in the short term). Approvals of onshore resident applications could be increased to help maintain a reasonable supply of resident visas, while there could also be scope to allow extra extensions of temporary work visas for people already in New Zealand.

In periods such as the late 1990s, when New Zealand’s weak economic performance contributed to a large outflow of New Zealanders, increased visa approval numbers could have helped to keep population growth at a higher rate, boosting aggregate demand and helping stimulate economic activity. There might be some scope for increasing residence approval numbers, particularly compared with times when overall approval numbers are constrained by the contribution of New Zealander flows to population growth, but there must be caution that the bar for residency is not lowered too far in terms of the skills contribution that immigrants can make to the New Zealand economy.

Instead, the best vehicle for boosting immigration during such a period is likely to be via increased approvals for those people on student and temporary work visas. Although some immigrants in both these categories subsequently apply for residency, people in both groups have a relatively high propensity to leave New Zealand again within three years. Thus, issues of migrant quality, which are particularly important for residence applications and immigrants’ long-term contribution to New Zealand’s workforce, are less critical for migrants that are only here temporarily. This assertion is backed up by the fact that any subsequent residence applications for people here on student or temporary work visas will be assessed on the skills (or other) criteria set down by government policy.

New Zealand’s population growth in a global context

We believe that aiming for a relatively stable rate of population growth should be a central goal of migration policy. In this regard, determining what is an appropriate rate of population growth to target is a second-order issue. Nevertheless, we believe that targeted population growth:

- should not be negative, to prevent the problems associated with a shrinking population
- should not be so strong that it causes undue stresses on the economy, even if the growth rate is stable

- should not be so strong that the quality of immigrants being accepted is detrimental to New Zealand's overall skill base and long-term potential growth.

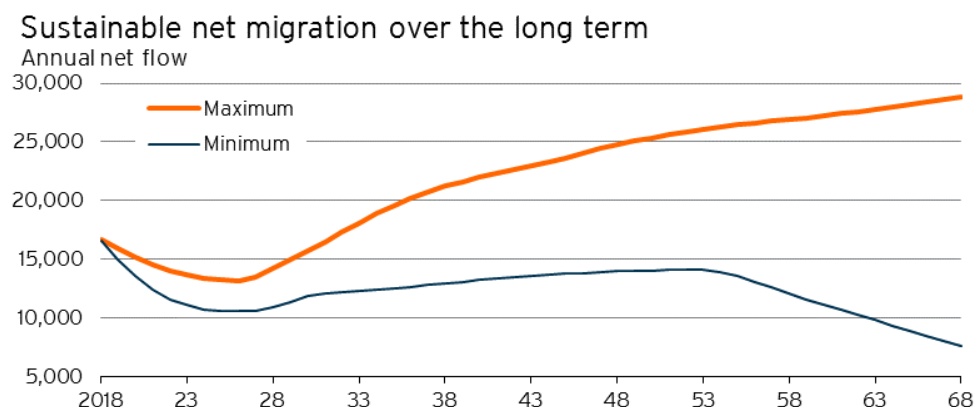
The final point hints that the potential supply of migrants wanting to come to New Zealand is an important influence on the appropriate rate of population growth. Anecdotally, New Zealand is relatively high on people's choice of destination to migrate to, so in theory there should be an almost unlimited supply of potential migrants for us to choose from. However, slowing population growth, both in other developed countries and in developing countries, raises questions about the potential supply of migrants over the longer term.

Slowing population growth, an aging population, and a rising dependency ratio in developed countries suggests that there could be greater competition from other nations to attract skilled migrants over the medium term. At the same time, slowing population growth in developing nations, due to improved access to contraception and rising incomes encouraging more women into the workforce, will mean that the pool of potential migrants wanting to shift to developed countries might not be as large. The latter factor arguably has the most scope over the long-term to undermine the quality of potential migrants looking to move here.

Hanging over the influence of these trends in global population are two other macro developments. Firstly, we have seen suggestions that the falling real cost of travel and rising incomes in developing countries are leading to greater international mobility and, as a result, the trend in net migration to New Zealand will continue to rise over the medium term. In our view, this one-sided projection places too much weight on recent years in estimating the underlying trend in net migration. It also fails to consider increased departure numbers that could result from the growing ease of international travel.

Secondly, there has been increasing discussion in recent months about the rise of automation and the future of work. Although the aging population means that New Zealand's already-tight labour market is likely to tighten further over the next 4-5 years, it is unclear what the relative demand for labour will look like over a 20-year horizon, as technological advances potentially make a lot of current jobs obsolete. Systemically higher unemployment could conceivably undermine the case for allowing continued migration if those people arriving in the country are not able to support themselves financially.

Graph 19



Keeping in mind the caveats that these possible trends present, we have estimated appropriate levels of net migration based on New Zealand's population growth relative to projected population growth in high-income countries and total world population growth. Over the coming decade, net migration of between 10,500 and

16,600pa appears to be appropriate given population growth overseas. However, with net migration currently sitting at 72,300, a gradual approach to pulling back the numbers means that it could be seven years or longer before net migration sits within this range.

Over a 50-year horizon, the uncertainties around population growth and broader economic conditions increase. Our estimated average for sustainable net migration over this period lies in the 13,100-21,600pa range. However, slowing population growth in developing countries could limit the supply of appropriately skilled migrants so that a net inflow as low as 7,600pa could be appropriate at the end of the projection period. The upper end of our range by 2068 is a net inflow of 28,900 people per annum - a figure that, given the expansion in New Zealand's population over the next 50 years, is equivalent to a net inflow of 20,500 people per annum now.