



BRIEFING

Assessing the risk of New Zealanders emigrating as border restrictions ease

Date:	25 February 2022	Priority:	Low
Security classification:	In Confidence	Tracking number:	2122-2830

Action sought		
	Action sought	Deadline
Hon Kris Faafoi Minister of Immigration	Note and refer report to other EET Ministers	4 March 2022
Hon Carmel Sepuloni Minister of Social Development and Employment	Note content of briefing	10 March 2022
Hon Stuart Nash Minister of Economic and Regional Development	Note content of briefing	10 March 2022

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Ruth Isaac	General Manager, Employment Skills & Immigration Policy (ESIP)	Privacy of natural persons	✓
Gerald Minnee	Policy Director, ESIP	Privacy of natural persons	

The following departments/agencies have been consulted
MSD, MoE, TPK, MWA, MPP, Treasury

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



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Purpose

This briefing updates you on MBIE's initial estimate of how many New Zealand citizens might be expected to leave for overseas as our borders reopen. This estimate has been discussed with EET DCEs at their meeting of 18 February 2022.

Executive summary

MBIE's ball-park estimate is that around 50,000 New Zealand citizens might choose to emigrate over the next year as our borders reopen. The number could be higher if pent up Overseas Experience (OE) demand is realised over the next year; or it could be less to the extent that New Zealanders delay their emigration plans until the international context settles.

Our estimate is based on three main considerations:

- New Zealand's long-run migration trends which have been characterised by relatively high rates of inbound and outward migration flows compared to other OECD countries.
- The rapid fall in the number of departures by New Zealand residents/citizens between 2012 and 2020 - indicating emigration preferences were changing well before New Zealand closed its borders. As an example, departures to Australia almost halved over that period despite the frictionless border with Australia and higher wages being available there.
- The well-established pattern of young people doing their OE is likely to resume. But we would not expect three years of pent-up OE demand to be realised all at once. The recent experiences of New Zealanders getting stuck overseas and the changed perceptions of travel risk in a COVID world could lead to many young people deferring their OE plans until conditions settle.

We expect Australian employers will recruit more actively in New Zealand as our borders open, offering workers higher wages than are available locally. But, again, we would not expect this to drive emigration above historical trends. Large wage differentials have existed between New Zealand and other English-speaking countries for several decades. Historically, our emigration rate has peaked during periods when the New Zealand labour market was performing less well than in destination countries. This does not seem to be the case presently – high and expanding demand within our labour market continues to create job opportunities for workers staying in New Zealand.

MBIE suggests actively monitoring migration behaviour (as part of our general labour market overview function) rather than commissioning deep research or new policy work at this stage.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** MBIE's initial estimate that roughly 50,000 New Zealand citizens might choose to emigrate over the next year as our borders open – possibly more if pent up OE demand is realised over the next year, or less to the extent that New Zealanders delay their emigration plans until the international context settles

Noted

- b **Refer** a copy of this report to other EET Ministers for information.

Referred



Ruth Isaac
**General Manager, Employment, Skills and
Immigration Policy**
Labour Science and Enterprise, MBIE

Hon Kris Faafoi
Minister of Immigration

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25/2/22
..... / /

Hon Carmel Sepuloni
**Minister of Social Development and
Employment**

..... / /

Hon Stuart Nash
**Minister of Economic and Regional
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Assessing the risk of New Zealanders emigrating as border restrictions ease

Overview

1. This briefing updates you on MBIE’s initial estimate of how many New Zealand citizens might be expected leave for overseas as our borders reopen over the next year. We canvass:
 - the significance of emigration choices by New Zealand citizens for the labour market
 - lessons from New Zealand history, which has long been characterised by high and fluctuating rates of inward and outward migration
 - the upper emigration limit based on historical migration patterns and reasons for expecting the gross loss to be well below previous peaks
 - how demand for inbound migration is highly likely to resume, giving New Zealand the opportunity to address any critical workforce shortages that cannot be addressed domestically (consistent with the Immigration Rebalance settings)
 - what, if any, further work should be done to better understand the emigration risk.

Context – Reconnecting New Zealanders to the rest of the world will reboot migration flows

2. The Government recently announced a five-stage path for Reconnecting New Zealanders to the rest of the world over the coming year. Briefly:

Step	Timing	Who can travel to New Zealand
Step 1	From 11.59pm, Sunday 27 February 2022	<ul style="list-style-type: none"> • Reopen to New Zealand citizens and residents, and other eligible travellers under current border settings (specifically, people who hold border exceptions) from Australia.
Step 2	From 11:59pm, Sunday 13 March 2022	<ul style="list-style-type: none"> • Reopen to New Zealand citizens and residents, and other eligible travellers under current border settings from the rest of the world. • Open to skilled workers earning at least 1.5 times the median wage. • Open to Working Holiday Scheme visa holders.
Step 3	From 11:59pm, Tuesday 12 April 2022	<ul style="list-style-type: none"> • Open to current offshore temporary work and student visa holders, who can still meet the relevant visa requirements. • Open to up to 5,000 international students for semester two. • Consider further class exceptions for critical workforces that do not meet the 1.5 times the median wage test.
Step 4	By July 2022	<ul style="list-style-type: none"> • Open to anyone from Australia. • Open for visa-waiver travel. • The Accredited Employer Work Visa will open, meaning the skilled and health worker border exception can be phased out.
Step 5	From October 2022	<ul style="list-style-type: none"> • Fully reopen border to visitors from anywhere in the world, and all visa categories.

3. One implication of this plan for opening our borders is that New Zealanders will be able to leave and return much more easily than at present, in advance of sufficiently large immigrant in-flows to offset the potential workforce loss. Some commentators have suggested very high rates of New Zealand emigration occurring as border restrictions ease, exacerbating current labour and skill shortages.

4. In this context we thought it would be useful to share some key facts and our initial judgements about the likely scale of emigration and what might mitigate the loss of New Zealand workers to other countries.

Significance of emigration choices by New Zealand citizens for labour market performance

5. MBIE's recent analysis of labour market performance has highlighted rapidly rising labour demand (especially in construction, health, and other expanding industries), disruption to some important channels of labour supply, and widely reported workforce shortages. With high rates of labour force participation and employment and low unemployment at or near record levels, there is a valid question as to how far the domestic labour market can further expand to meet rising demand in key sectors.
6. MBIE's recent report to EET Ministers [2122-1786] on how the labour market has been responding to skill scarcity showed how effectively the domestic workforce has responded to this expanding demand over the last two years, offsetting the greatly reduced incoming flow of migrant labour from other countries. The available supply of workers has been affected by three changes in normal migration patterns: far fewer New Zealanders leaving for overseas, New Zealanders coming home, and temporary migrants staying longer in New Zealand than originally expected (with the number of migrant workers in New Zealand remaining substantially similar as before March 2020, excepting those on Working Holiday and Student visas).
7. As our borders open, these migration flows are likely to change in at least three ways:
 - more New Zealand citizens (including recent returnees) leaving to work in other countries
 - temporary migrants residing in New Zealand who do not qualify for the 2021 Resident visa returning home
 - temporary migrants in other countries (students, workers) being able to enter New Zealand again.
8. This immediate context justifies attention to sizing the likely loss of New Zealand workers to overseas. A very high emigration rate could make existing skill and labour shortages even more challenging, especially if:
 - this loss occurs *before* in-bound skilled migration resumes fast enough to fill critical gaps, and
 - a significant fraction of domestic workers needs to isolate as the omicron variant spreads, reducing our short-run labour supply (though is likely to be a temporary constraint).
9. The emigration risk should, however, be considered in the light of overall supply and demand changes, and what firms can do to better utilize and augment the available workforce. One big lesson from economic history is that New Zealand has had to cope with rapid shifts in net migration (as has occurred over the last 2 years).

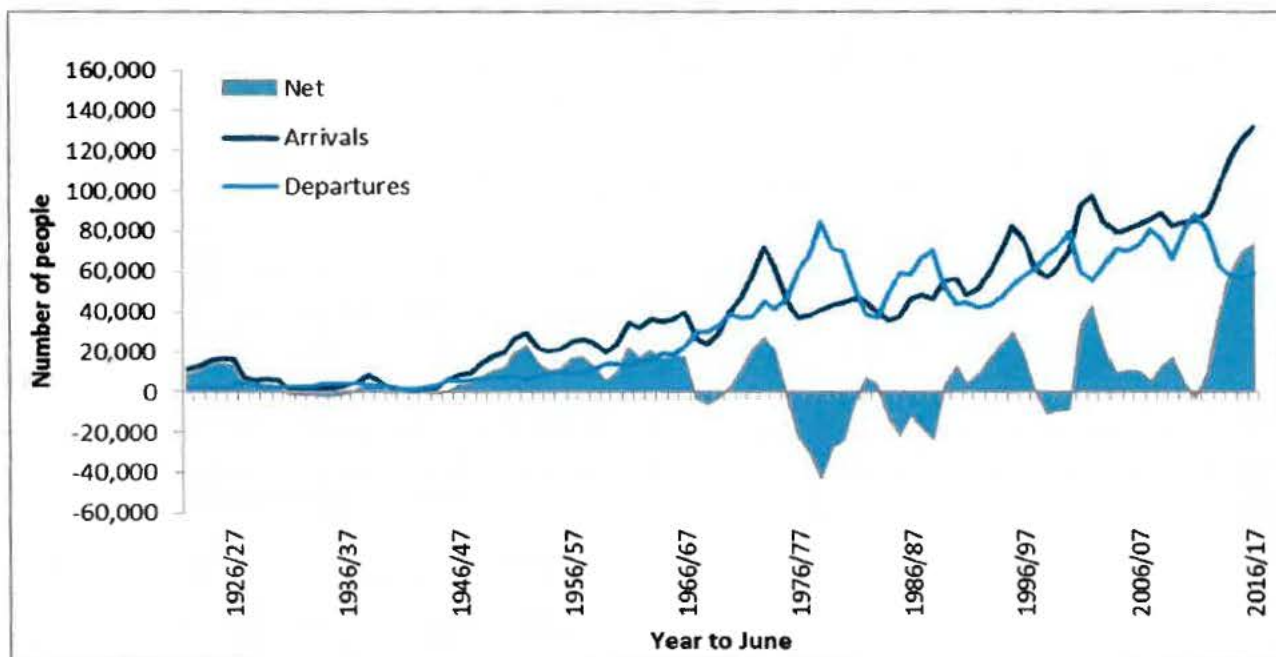
New Zealand has been characterised by high rates of emigration and immigration

10. Permanent and long-term (PLT) migration¹ has been an important long-run driver of population (and workforce) growth in New Zealand, with net migration flows being positive for most of the last century (as illustrated in Figure 1 below). The number of PLT arrivals and departures have greatly increased over time, with arrivals generally outnumbering departures, but not in every year. This is because the rate of migrant arrival and departure growth has fluctuated since the

¹ Permanent and Long-Term (PLT) migrants are defined those who intend to live 12 of the next 16 months overseas (for emigrants) or in New Zealand (for immigrants).

1960s, with large asynchronous peaks and troughs creating periods of net migration loss (in the late 1970s, 1980s and 1990s) and periods of rapid net migration growth (e.g. 2012-20).

Figure 1: Annual Permanent and Long-term Migration Flows, 1921/22-2016/17

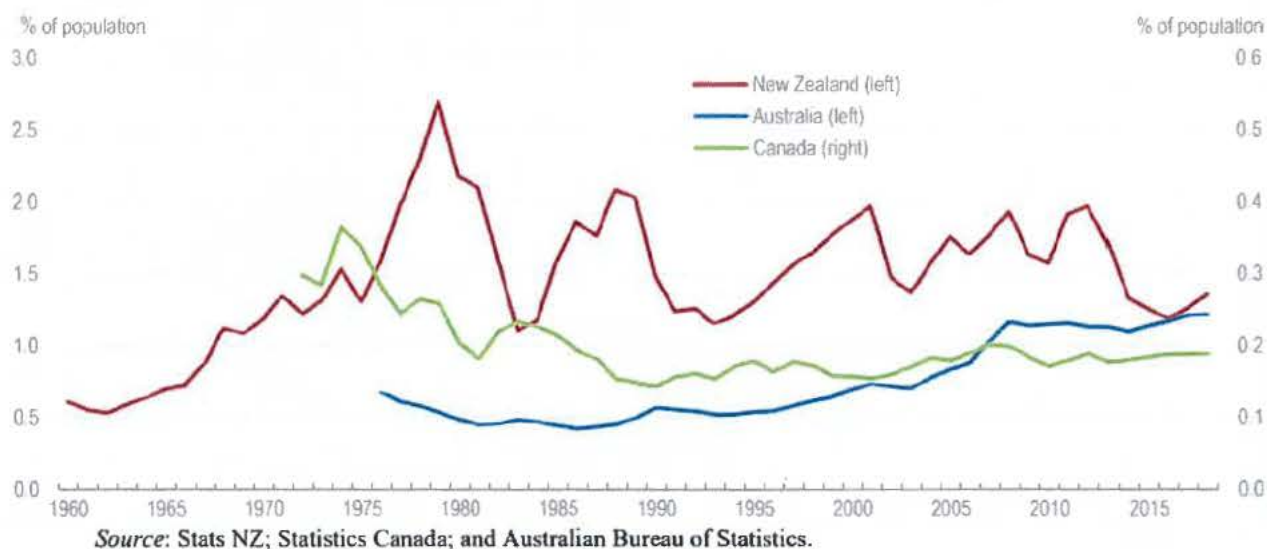


Source: StatsNZ.

New Zealand's rate of emigration is high by OECD standards

11. Our emigration rate is high by OECD standards. Figure 2 below² shows how our emigration rate has fluctuated between roughly 1-2% of the total New Zealand population since 1980. By contrast, the Canadian rate has fallen from 0.3% to 0.2% since 1980 (around 5- to 10- times lower than New Zealand's rate). The Australian emigration rate has increased from about 0.4% to 1.2% since 1980, converging with New Zealand's emigration rate in recent years after being well below it before 2015.

Figure 2: Emigration from New Zealand is high as a percentage of the population



Source: Stats NZ; Statistics Canada; and Australian Bureau of Statistics.

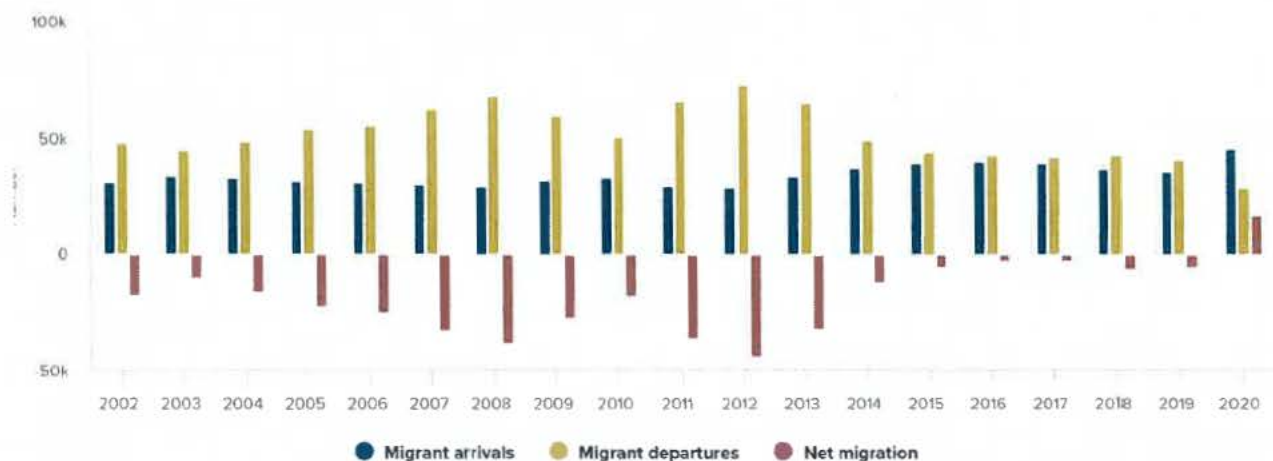
² Chart taken from New Zealand Productivity Commission (November 2021) *Impacts of immigration on the labour market and productivity*.

12. Figure 2 also shows how much and how rapidly New Zealand's emigration rate has changed over the last 70 years, rising sharply over the 1960s and 1970s (from around 0.5% in the early 1960s to over 2.5% of the total New Zealand population in 1980) and then falling from its 1980 peak.
13. Over the last four decades, the emigration rate has generally fluctuated between 1.2-2% of the total population. Note that:
- Going back to this rate would represent a loss of around 60,000-100,000 people per year using today's population. This would be a substantial number. But (as shown in Fig 1 above) New Zealand's high immigration rate has more than offset this loss, with net migration being strongly positive for most years over the last 3 decades.
 - Most New Zealand emigrants are of working age. MBIE's migration trend analysis of permanent and long-term departures for 2016/17 showed that around 15% were under 15, 60% were aged 15-34, and 25% were aged 35 and above. Fewer than 5% were above age 65.³
 - The New Zealand labour market has continually adjusted to changing migration flows. In fact, higher rates of emigration seem to occur when the New Zealand labour market is performing poorly relative to destination countries – Australia in particular.

Number of New Zealand citizens emigrating (and the net migration loss of citizens) was falling well before the borders closed...

14. Migration behaviour was clearly changing well before New Zealand closed its borders in March 2020, particularly for New Zealand citizens. Figure 3 below shows how the annual number of New Zealand citizens departing for overseas fell sharply from its 2012 peak of 72,000 to around 40,000 from 2015 to 2019 (and even lower in 2020). The number returning from overseas also increased over that period. Consequently, net migration for New Zealand citizens, which had run at an average annual loss of around 20,000 over the 2002-2019 period, fell to relatively small numbers after 2014 and turned positive in the March 2020 year (when New Zealand citizen arrivals exceeded departures by 7,000). This recent pattern of departures and arrivals is historically unusual, indicating that migration preferences were changing among New Zealand citizens before the COVID-19 pandemic was known and travel choices had relatively few restrictions.

Figure 3: Estimated migration of New Zealand citizens, year ended June 2002-20



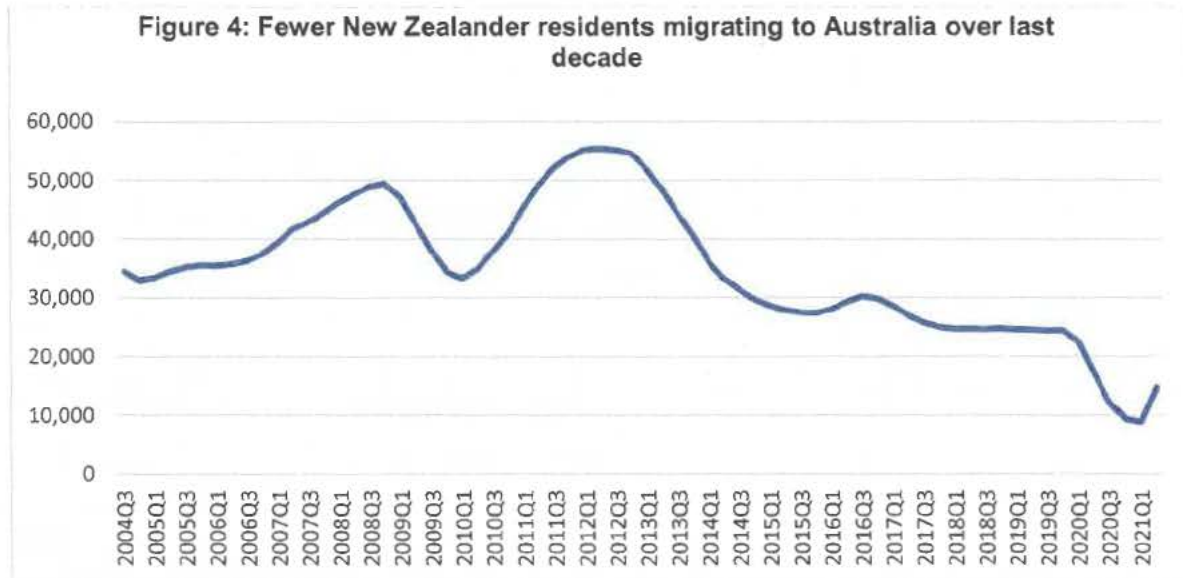
Note: Estimates for 2019 onwards are provisional and subject to revision

Stats NZ

³ MBIE, March 2018 *Migration Trends 2016/17*.

...with far fewer New Zealand residents emigrating to Australia since 2012

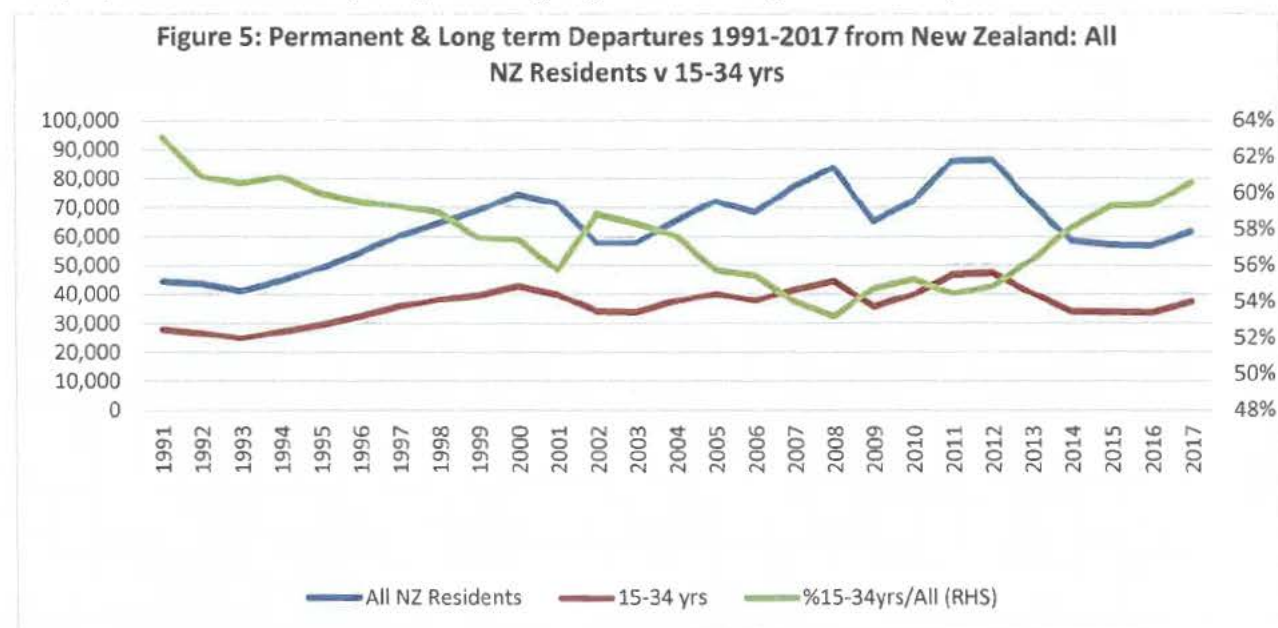
15. One important aspect of this changing migration behaviour was that the number of New Zealand residents leaving for Australia fell sharply from its annual average peak of around 55,000 in 2012 to around 25,000 during the three years before March 2020. This reduction occurred despite wage differentials and an almost frictionless border between Australia and New Zealand.



Source: Stats New Zealand, The Y-axis shows the rolling annual average of New Zealand residents emigrating to Australia.

...but OE demand is highly likely to resume with borders opening

16. Another key feature of New Zealand’s historical emigration pattern is the relatively stable number of young people (aged 15-34) leaving New Zealand each year. Many of these younger emigrants are likely to have left New Zealand to experience life overseas before settling down in New Zealand – a common rite of passage for younger Kiwis. Figure 5 below shows the total number of annual PLT departures for all ages (blue line) and young people (red line) over the last 3 decades until 2017 for all migrants. The green line shows the 15-34 year cohort as a proportion of all PLTs (with percentages given on the right-hand side).



Source: Stats New Zealand

17. Note that, since the late 1990s, around 40,000 young New Zealanders have left annually to spend at least a year overseas. This number has been more stable than the total number of PLT departures, which has fluctuated between roughly 60-85,000 per year over the same period. The proportion of young people (aged 15-34) has fluctuated between 53-60% of total PLT departures. This suggests a continuing demand amongst those aged 15-34 to emigrate, regardless of the performance of the New Zealand labour market (or wider economy) relative to other countries, which seems to drive the fluctuations in our overall emigration rate.
18. Pent-up demand for OE could potentially have a non-trivial impact on the availability of younger workers, depending on how quickly this demand is realised. The 15-34 age group sums to around 1.4 million people, of whom 1.1 million participate in the labour force. If three years' pent-up demand for OE (potentially in the order of 120,000) were to be realised all at once during 2022, this would imply a 11% loss of workers aged 15-34. There are several reasons for thinking this scale of loss unlikely:
- The pre-2020 pattern of OE occurred within a very different international environment: travelling across international borders was relatively easy, holiday work was accessible in many countries, and the ability to return to New Zealand was taken for granted. Post 2020, young New Zealanders will have observed friends and family getting stuck overseas, without jobs or access to welfare or affordable healthcare when things go wrong.
 - While New Zealand is opening its borders to allow New Zealanders to return, entry into other countries may remain much more complicated and costly than in the past. And other countries could choose to change their settings in unpredictable ways in response to further pandemic outbreaks (or other risks) now that border restrictions have become a widely used policy tool.
 - Airlines may take time to rebuild their international passenger services, so there may be fewer travel choices than in the recent past.
 - Traditionally many New Zealanders have gone to the UK for their OE. Post Brexit, the cost and difficulty of moving from the UK into Europe has increased, reducing the value of UK-based OE.
19. Overall, perceptions of OE travel benefits and risks are likely to have substantially changed from those before 2020. At least some New Zealanders in the 15-34 age group may prefer to defer their OE plans until the international scene becomes more settled, spreading the pent-up demand for OE over time. Even so, the potential size of this workforce risk is worth monitoring closely (e.g. by tracking the changing age and qualification structure of the workforce in quarterly HLFS updates). MBIE will also continue to monitor how firms respond to the potential loss of workers in the 15-34 age group.
20. Evidence from the last two years has demonstrated how quickly firms have responded to sudden changes in labour supply by drawing on the wider domestic workforce (raising participation and employment rates to record levels). Current NEET rates, for example, suggest there is considerable scope to make better use of younger workers. Conversely, increasing temporary immigration volumes too quickly could reduce employment opportunities for younger New Zealanders, making emigration relatively more attractive as an option.

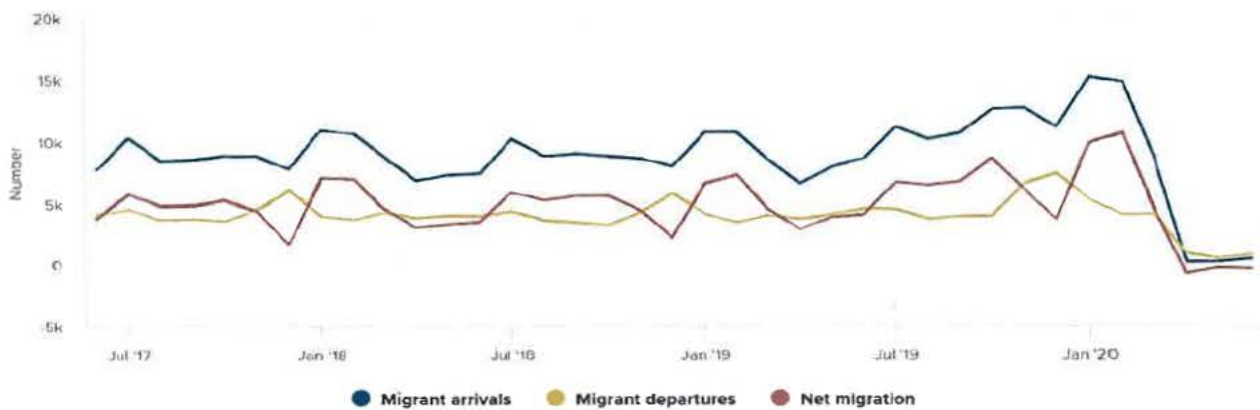
Migrant demand from other countries is highly likely to resume even with more rigorous migrant screening announced under the immigration rebalance

21. The migration pattern for non-New Zealand citizens prior to March 2020 was more consistent with longer term trends as illustrated in the chart below. Arrivals consistently and increasingly exceeded departures so net migration doubled from around 5,000 per month in 2017 to 10,000 per month in early 2020.⁴ These net migration in-flows more than offset the small annual losses of New Zealand citizens observed after 2013 so the core working age population increased by

⁴ As an example, among non-New Zealand citizens there were provisionally 114,400 migrant arrivals, 50,100 migrant departures and 64,300 net migration in the year ended March 2020 (see MBIE Briefing 3249 19-20).

around 40-60,000 per year over the 2014-2019 period. The effect of closing the borders on non-citizens was immediate with arrivals and departures falling sharply to near zero and net migration falling below zero.

Figure 6: Estimated Migration of non-New Zealand citizens, monthly, June 17-20



Note: Estimates from March 2019 are provisional and subject to revision.

Stats NZ

History suggests 2.5% as the upper limit for emigration risk...but likely to be less

22. It is not clear how the planned reopening of borders will affect the migration behaviour of New Zealand citizens. New Zealand's economic history suggests that losing 2.5% of the total population in any one year (ie 125,000 in total, or 100,000 people of working age) is the likely upper limit for our emigration risk.⁵

23. High emigration rates tended to be observed when our labour market was performing poorly relative to destination countries (especially Australia), and then for relatively brief periods. Evidence points to the number of New Zealand citizens departing within a tight New Zealand labour market offering lots of job opportunities being in the order of 50,000 per annum. This judgement is based on:

- the pattern of New Zealand citizens leaving over the last 2 decades during periods of strong labour market conditions (which tended to be below 50,000 per year)
- the marked reduction in citizen departures over the 5 years before New Zealand closed its borders (to around 40,000 per year)
- our expectation that many New Zealanders planning to migrate may prefer to defer doing so until the international context settles. Pent up demand for OE could temporarily push citizen departures above the level observed before New Zealand closed its borders. However, younger New Zealanders may wish to defer their OE plans until the risks and benefits of OE become clearer, especially if employment prospects in New Zealand remain strong.

24. We expect Australian employers will be proactively recruiting in New Zealand as our borders open, offering workers higher wages than are available locally. But, again, we would not expect this to drive emigration above historical trends. Large wage differentials have existed between New Zealand and other English-speaking countries for several decades. Our emigration rate has traditionally peaked during periods when the New Zealand labour market was performing less well than in destination countries. This does not seem to be the case presently as high and expanding demand within our labour market continues to create job opportunities for workers staying in New Zealand.

⁵ This overall figure combines New Zealand and non-New Zealand citizens departing.

25. Furthermore, competition for skilled workers is a healthy tension, creating an incentive on employers to make jobs more attractive, improve employment conditions and adjust wages. So far, there has been little evidence of wages responding to skill scarcity in New Zealand on a widespread scale. For example, the latest Labour Cost Index data (for the Dec 2021 quarter) suggest that around 2/5 of workers have not had their wages adjusted over the last year, 2/5 have had modest increases (mostly 2-3%), and 1/5 of workers have had a 5% increase or more. On average, wages have moved by 2.6% over the last year, with real wages falling for most workers. The implication is that further increases may be required for wages to be competitive, attracting workers to where their skills are best used, in a tightening labour market.
26. If the number of New Zealand citizen departures is around 50,000 per annum (or even higher), then there are good reasons to expect other channels of labour supply to respond to the resulting skill gaps, given:
- Immediate demand for off-shore New Zealand citizens who have been prevented by border restrictions from coming home to return, with arrivals feasibly going back to the levels observed during the five years before the borders were closed.⁶
 - Demand for non-New Zealand citizens to immigrate is likely to resume – consistent with the phased opening of the New Zealand border and the tighter screening envisaged under the Immigration Rebalance. We would not expect to go back to the number or mix of temporary immigrants with work visas arriving in 2019. But we would expect the flow of skilled workers from other countries to progressively increase over 2022, helping offset the loss of New Zealand-citizens departing for other countries.
 - Untapped domestic workforce capacity – including the 254,000 currently employed workers who work fewer hours than they want.⁷ Collectively, these employees were seeking 2.7 million hours of work, equivalent to 67,500 employees each working 40 hours per week.

Possible further work to assess the impact of emigration as borders open

27. Given the uncertainty of how inward and outward migration flows might change as New Zealand progressively opens its borders, it would seem prudent to actively monitor these flows and their impact on the size and structure of the workforce. Emigration data tends to be lagged but we would see the impact of a large and rapid net migration exit rate in quarterly HLFS data (and other indicators of labour market performance). We suggest keeping a particular eye on the age and qualification structure of the workforce, to see how quickly the demand for OE materialises and how this affects employment within 15-34 years age cohorts.
28. But it is important not to focus on emigration risk in isolation from the feasible channels of labour supply (briefly canvassed in para 26 above). Historically, the New Zealand labour market has adjusted to rapidly changing migration flows, including the greatly reduced flow of in-bound migration over the last two years. During this time, the domestic workforce has expanded in response to the rising demand for labour.
29. On policy responses, the Government has few direct levers to influence emigration choices. But Government has opportunities to help firms and sectors address emerging labour and skill gaps more effectively through its current work programmes. Our November report to EET Ministers on skill scarcity advocated continued focus on supporting faster and more effective responses in the context of implementing the Government's reforms to the skills system, including:

⁶ Many New Zealanders living offshore came home in 2020, but we would still expect there are some New Zealanders still wanting to return after borders reopen.

⁷ HLFS Dec 2021 Supplementary Table 11. Employees wanting to work more hours are available across all age cohorts, industries, occupational groups, and regions. StatsNZ data shows that many of these employees are well qualified with about a quarter having degrees and 2/5s have Level 4 qualification or higher

- better understanding of workers who are wanting jobs and more hours of work
- better leveraging of labour market data and intelligence across the skills system
- building more effective industry-level workforce planning and development capability
- better understanding of longer-term labour market challenges and how to address them (beyond the work on long-term skills shortages as part of the Immigration Rebalance).

30. The Report also noted the importance of keeping tension in the system – to incentivise industries and firms to find solutions to their labour and skill needs and make better use of the domestic workforce (including the 254,000 employees who are working fewer hours than they want, mainly because the work isn't available). The perceived emigration risk makes the case for that general approach even more compelling. Our domestic labour market needs to keep offering plentiful employment opportunities, with good working conditions and sufficiently competitive wages, so most New Zealanders want to stay here.

Conclusion

31. The immediate risk of workforce loss through New Zealand citizens emigrating is significant, but containable to the extent that emigration loss is offset by other channels of labour supply. Our ballpark estimate of around 50,000 PLT departures by New Zealand citizens over the next year reflects historical trends, with tentative judgements about migration behaviour over the next year. Our estimate could be too low (e.g., because of pent up demand for OE) or too high (if many New Zealand citizens prefer to delay emigration plans until international conditions become more settled). Given this uncertainty, MBIE plans to continue monitoring emigration rates, as part of our overall responsibility for monitoring the labour market, in consultation with other interested agencies.

32. Whatever the actual level of emigration, the best response is to keep encouraging and helping firms to make better use of the domestic workforce and to keep targeting the immigration system to where skills are most required. In other words, to implement the Government's reforms across the skills and employment systems well.

Next steps

33. We suggest that you share this briefing with other EET Ministers for their information.

34. MBIE will report on emigration trends and how other channels of labour supply respond in the context of overall monitoring of labour market performance.