# Antipodean Economic Comment

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## The population growth engine

Economics - Australia/NZ

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- The closed and then re-opened borders to people movement in Australia and New Zealand have, unsurprisingly, had big effects on their respective economies. In particular, migration stalled and then rebounded, driving a strong pick-up in population growth. The 'shock' has played havoc with economic forecasts, particularly for housing markets. On the positive side, inward migration is now back to being a key growth engine in both countries. At the same time, policymakers need to focus on supporting the economy with adequate supply of housing and infrastructure. This is a challenge, but also a great opportunity.

Of course, Australia and New Zealand were not unique -- the pandemic and the policy response to it, drove disruptions to people movement in, and between, many countries. But the 'hard border' approach taken in the Antipodean economies, as well as the high reliance on migration to drive growth over the pre-pandemic years meant the border closures, arguably, had a more substantial effect than in many other places. We wrote about this through the pandemic and more recently.

For Australia, a key recent development is that the re-opened border has seen a much larger rebound in population growth than had been expected. Indeed, net inward migration has been running at almost twice the rate that was projected in the government's mid-year fiscal update in December 2022 (which is also almost twice pre-pandemic normal rate). Annual net migration was 454k people (year-to-March 2023), against earlier forecasts for 180k people to arrive in 2022/23.

Much stronger-than-expected population growth in Australia is underpinning more economic growth, making it less likely that GDP falls outright.

The strong influx of migrants is having clear implications for housing and labour markets. On the housing market, it is a key reason that housing prices have been rising recently, despite high and rising interest rates. As migration rates head back to a more normal pace, this should start see housing price growth slow.

On the jobs market, the large influx of migrants is boosting labour supply, freeing up areas of skills-shortages and seeing the unemployment gradually rise, as there are more workers per available job. This should help to contain upward pressure on wages growth.

For New Zealand, the border closure and re-opening was similar in timing and scale. However, the effects have been a little different.

The immediate effect of the re-opening of the New Zealand border saw many workers in New Zealand move abroad when the border first re-opened, including to Australia where wages are higher and the jobs market was tight. This added to labour shortages and saw a tighter jobs market and more upward pressure on wages growth in New Zealand than in Australia. It also contributed (in addition to higher interest rates) to a larger fall in housing prices in New Zealand than Australia – they fell 18% from the peak, compared to 10% in Australia.

However, although it has taken more time, net migration in New Zealand rebounded to a new record high 87k in the year-to-June 2023, against the government's earlier forecasts for -1k in 2022/23. This is helping to support economic growth and was one of the factors underpinning the strong Q2 GDP print. It is also adding to labour supply, and is set to take some of the pressure off wages growth. In addition, it is boosting housing demand, which has seen housing prices starting to stabilise recently.

On inflation, our models suggest that the immediate impact of stronger inward migration is upside risk to inflation, but that over time, as the migration adds more to the supply-side of the economy – particularly of labour – the inflation effect fades.

Both the RBA and RBNZ may yet have to lift rates a bit further in the short run – which is our central case. Alternatively, the central banks could choose to be more patient than we think and just hold steady with their above neutral cash rates, waiting for the tightening already delivered to slow demand and the border re-opening effect to improve labour supply.

So far, the RBA has lifted its cash rate by 400bp – while the RBNZ has been more hawkish, with its 525bp of tightening. Despite the RBA's less hawkish approach, inflation has come down faster in Australia than New Zealand, which we think partly reflects greater supply-side challenges in New Zealand, including as a result of the closed border effects.

One of the most pressing and visible issues at present, related to the surge in inward migration, is the shortfall of rental housing. This is most prominent in Australia, given the marked upside surprise to population growth, and is likely to become an increasingly acute issue in New Zealand. The optimal policy solution is to focus more heavily on improving housing supply and infrastructure. After all, population growth is, and has been for most of Antipodean history, a key economic growth engine.

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