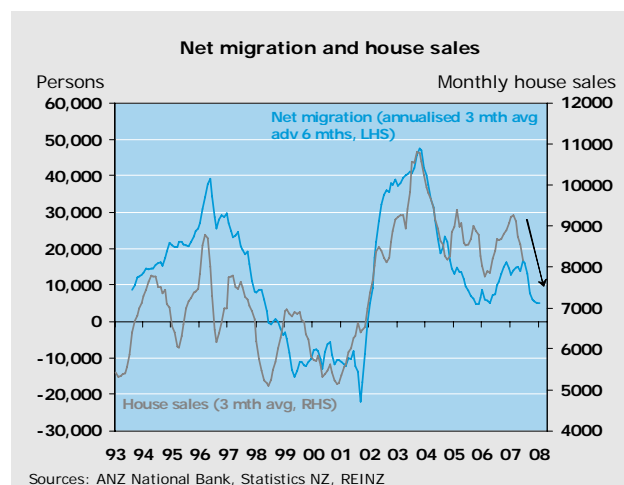


EXTERNAL MIGRATION – JUNE 2007

Key points

- Migration flows continue to ease, with the three-month annualised inflow falling rapidly since the start of the year, largely due to an increase in the number of people permanently departing.
- The Reserve Bank will take comfort from the softening migration data as it, along with the significant increases in financial conditions, suggest housing market activity will slow.
- The Reserve Bank expects further stabilisation in migration around current levels before increasing. However, we see the risks more to the downside.
- Visitor arrivals remain robust, despite the high NZD, although the impact of the latest surge in the kiwi is unlikely to be picked up just yet. This is shaping as a Christmas story.

	Net Migration		Visitor Arrivals		NZ Short-term Departures	
	Month (sa)	12-mth Total	MoM	YoY	MoM	YoY
Jun-06	1190	10688	1.1	-11.2	4.5	8.9
Jul-06	1400	12143	-2.8	-0.9	-4.7	-9.0
Aug-06	1120	12490	3.4	3.3	0.6	-4.6
Sep-06	1240	13200	-0.2	1.7	5.5	3.1
Oct-06	1100	13757	1.4	5.9	-4.8	-5.5
Nov-06	1850	14757	0.4	7.1	1.7	2.3
Dec-06	1020	14609	-1.4	3.9	4.6	1.1
Jan-07	380	14116	-3.0	-1.5	-0.3	1.3
Feb-07	520	13151	6.5	6.0	-1.5	5.7
Mar-07	630	12081	-1.0	5.4	1.7	7.1
Apr-07	230	11222	-2.1	0.8	-0.4	0.5
May-07	410	10682	1.8	4.0	8.5	15.8
Jun-07	590	10078	0.8	4.0	-0.4	10.9



The downward trend in migration inflows continues. There was a monthly net inflow of 590 people (s.a.) in June, taking the annual total to 10,078 from 10,682 in May. On a three-month annualised basis, migration inflows have come off rapidly since the start of the year, from 13,000 in January, to below 5,000 in June. The easing in net inflows this year looks to be largely a consequence of increasing permanent and long-term (PLT) departures. PLT arrivals have stabilised around current levels. The UK remains the main source country for PLT arrivals (26 percent of the total in the year to June 2007), while Australia is still the main destination for people permanently leaving the country (53 percent of the total in the 12 months to June 2007, up from 49 percent in the 12 months to June 2006).

Visitor arrivals remain robust, but for how long? Visitor arrivals rose by 0.8 percent in June, to be up 4.0 percent in annual terms. We have been surprised with how robust visitor arrivals have remained in the face of the high NZD. However, we suspect the latest surge in the currency to current levels may start to see prospective holidaymakers begin looking elsewhere (or at least significantly reduce their spending while over here). It is perhaps too early to see any impact of this in the latest data, though it may start to manifest around Christmas time.

Softer net migration inflows will provide some comfort to the Reserve Bank. Given the rapid easing in annualised migration inflows, coupled with the significant tightening in financial conditions over the past six months, we expect to see activity in the housing market slow over the remainder of this year and into 2008. There are already early signs that the housing market is softening, with house sales down 12.5 percent in the past 3 months, and recent monthly house price increases stabilising. Given the impetus the housing market has provided to inflation, this slowing will provide the Reserve Bank with some comfort (although this will not impact on their near-term monetary policy deliberations). The Reserve Bank expects migration to stabilise around current levels before increasing to around 13,000 per annum. We however, see the risks skewed to the downside, particularly as the Australian labour market remains tight and their more favourable personal income tax regime encourages more New Zealanders to head across the Tasman.

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