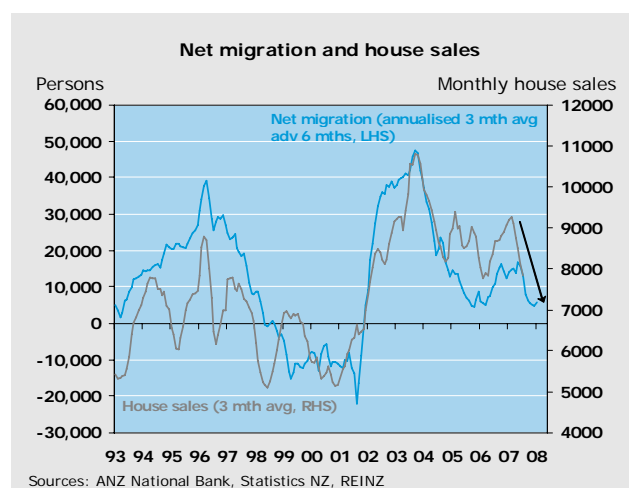


EXTERNAL MIGRATION – JULY 2007

Key points

- The easing trend in net migration inflows continues, driven by higher departures and static arrivals.
- The slowing in net migration will take further pressure off the housing market, a development that the Reserve Bank will welcome.
- But the labour market is set to remain tighter for longer as labour supply growth slows – putting further upward pressure on wages.
- Visitor arrivals remain resilient in the face of a high NZD. This suggests the tourism industry could be set for a big summer boom if recent falls in the NZD are sustained.

	Net Migration		Visitor Arrivals		NZ Short-term Departures	
	Month (sa)	12-mth Total	MoM	YoY	MoM	YoY
Jul-06	1440	12143	-2.1	-0.9	0.0	-9.0
Aug-06	1100	12490	2.9	3.3	-2.6	-4.6
Sep-06	1230	13200	-0.2	1.7	5.2	3.1
Oct-06	1090	13757	1.5	5.9	-4.7	-5.5
Nov-06	1840	14757	0.5	7.1	1.9	2.3
Dec-06	1020	14609	-1.3	3.9	4.0	1.1
Jan-07	400	14116	-3.0	-1.5	0.2	1.3
Feb-07	530	13151	6.5	6.0	-1.5	5.7
Mar-07	630	12081	-1.1	5.4	0.8	7.1
Apr-07	210	11222	-2.2	0.8	-0.4	0.5
May-07	390	10682	1.7	4.0	8.4	15.8
Jun-07	570	10078	0.6	4.0	-1.2	10.9
Jul-07	440	8966	-1.8	3.6	-8.5	-0.7

Assessment

Net migration inflows continue to ease. There was a net inflow of 440 people (s.a.) in July, taking the annual total to 8,966. On a three-monthly annualised basis, the net migration inflow is running at 5,600, down from the 13,000 annualised total early this year. The slowdown in net migration is largely due to a rise in the number of permanent and long-term departures, particularly to Australia. In the year ended July, there was a net outflow of 25,500 to Australia, an increase from the 20,521 net outflow in the year to July 2006. Permanent and long-term arrivals to New Zealand continue to be static.

Visitor arrivals to New Zealand continue to surprise with their resilience. Despite the NZD hitting a fresh post-float high in July, tourist numbers continue to post year-on-year gains. Although visitor numbers are down 1.8 percent in July, they are up 3.6 percent from a year ago. The continued growth in visitor arrivals, despite a rising currency, is testament to the attractiveness of New Zealand as a desired long-haul travel destination. The impact of the high NZD is more visible in the average spend per visitor, rather than on visitor numbers itself. This suggests that if recent falls in the NZD are sustained, the tourism industry could be set for a big summer tourist season at the end of this year.

For the Reserve Bank, the migration numbers will provide some comfort that the housing market will not be getting a demand boost from this channel. We see further downside risks to migration, and this points to further moderation in the housing market over the remainder of this year. While this will be a welcome development for the Reserve Bank, easing net migration also means that the labour market will remain tight and skill shortages will intensify as labour supply growth slows, putting more upward pressure on wages. With housing market activity looking to cool, the labour market now looks to be the main source of inflationary risk. **However, recent global financial market turmoil and any potential spillover into the real economy will likely be where the Reserve Bank's main attention is now focused in the lead-up to the September Monetary Policy Statement on 13 September.**

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