

Economic Research note

Flight of the Kiwis: mobile workers drain human capital

- New Zealand's ongoing brain drain keeps labor conditions tight, and induces higher wages
- Attractive job options abroad entice Kiwis to go offshore in search of work
- Growth in domestic wages must accelerate to keep Kiwis grounded

In New Zealand, migration flows have a substantial impact on housing demand, consumption and, to an increasing extent, labor market dynamics. The loss of skilled workers to countries like Australia and England has exacerbated New Zealand's already tight labor market; this will add to long-term wage inflation as corporates raise wages to try to prevent Kiwis from being wooed offshore. Wages are generally lower in New Zealand when compared to Australia and the UK; this wage gap needs to narrow in order to keep talented individuals from leaving.

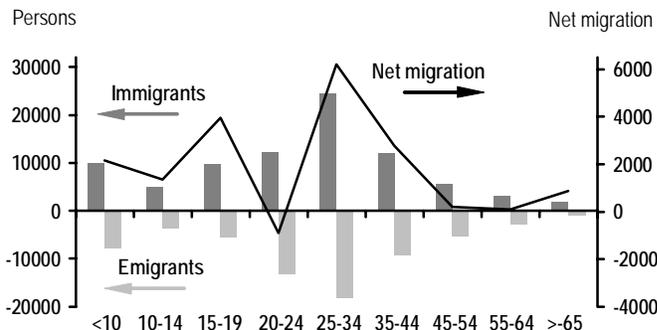
New Zealand is losing skilled workers in most industries. Net-permanent migration flows across each recorded job category show that the so-called brain drain continues. Kiwi culture is one of exploration, and encourages young people to finish their education and head overseas to travel or gain work experience. Although a large proportion return home after a few years, adding experience and expertise to the labor pool, the void widens during periods of high employment growth offshore.

It's all about the composition

When looking at New Zealand's positive net immigration statistics by age group, there is a distinctive crack in the bell shaped curve over the 20- to 24-year-old age group (first chart). This is the age at which many Kiwis grow wings and flee the coop. If anything, the migration data understates the exodus of Kiwis relative to the true flow of immigrants within this age group: some Kiwis leave with a temporary agenda, but end up becoming permanent emigrants, particularly in Australia. Owing to their initial intent, these travellers do not show up in permanent migration figures. Furthermore, the majority of this age group consider themselves students when leaving New Zealand, but take up work offshore.

The dent in this 20- to 24-year-old age bracket, generally consisting of graduate students, is not being filled by

New Zealand migration flows by age group (10-year average)



New Zealand migration flows by job category (10-year average)



graduates from offshore. Anecdotal evidence suggests that students travelling to New Zealand arrive, complete their degrees, and leave—few stay permanently. As a result, it is very difficult for domestic companies to find quality graduates, as the labor market for that age group is global. This impedes productivity growth and inflates wages.

Give us your young, old, and unidentifiable

Emigrating workers are not being replaced by immigrants, especially during times of high global employment growth. The migration brain-drain is illustrated by the fact that 17 of the 23 job categories posted an average net outflow (arrivals minus departures) on average over the last 10 years. The largest net flow of immigrants are people not entering the work force (second chart); this category consists of responses for children, students, and retirees. Thus, even though there has been an average net inflow of people in total, a large segment of these are not available to work.

Aside from the large number of unidentifiable¹ immigrants, the second-largest group, only 6 of the 23 specific job categories recorded a positive average inflow of workers over the past ten years; this result is broadly consistent over most time periods of the available data from 1992. The six

1. The second-largest job category is unidentifiable and not stated (added together for simplicity, having a rough 50/50% split). Many immigrants leave the job category empty on the customs card or write a job that does not fit one of the job categories. This may be a result of language difficulties.

categories include office clerks, teachers, physical, health, and life science professionals, and other professionals.

All trade categories, and most service and professional categories are in negative territory, with more Kiwis seeking job opportunities overseas than those entering New Zealand's labor force from offshore. The prolonged net emigration of skilled workers has contributed to the tightening of the labor market, which now has a multi-decade low unemployment rate of just 3.5%.

Admittedly, there are questions about the quality of the data. For example, there are issues related to literacy problems, lack of guidance on completing forms, complacency, and, travelers not having a clear objective when migrating (many Kiwis leave on a temporary basis, but never return). That said, although some of the data may be suspect, the broad picture is clear. With the majority of job categories losing workers on average, and the lion's share of net immigration being people not in the work force, New Zealand's labor market is being tightened by the attractiveness of opportunities offshore.

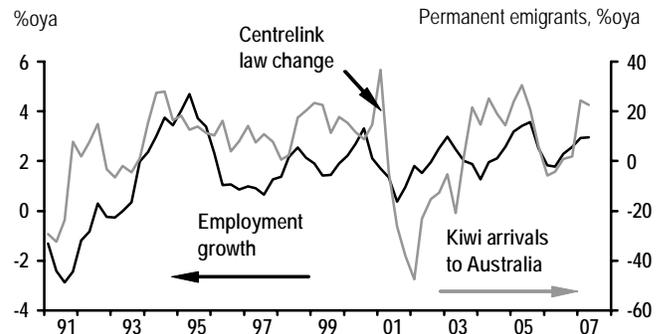
Gravitational pull of Australia and England

The two most popular destinations for Kiwi emigrants are Australia and the UK, which represent roughly 50% and 20% of the total outflow respectively. Australia and New Zealand are both former British colonies, so the culture is similar, and have similar economic and legal systems, making it easier to search for work and apply skills learned at school and university. This is coupled with the relative ease with which Kiwis are allowed to enter Australia and the UK to work. Furthermore, wages in Australia and, especially, the UK, are higher than in New Zealand².

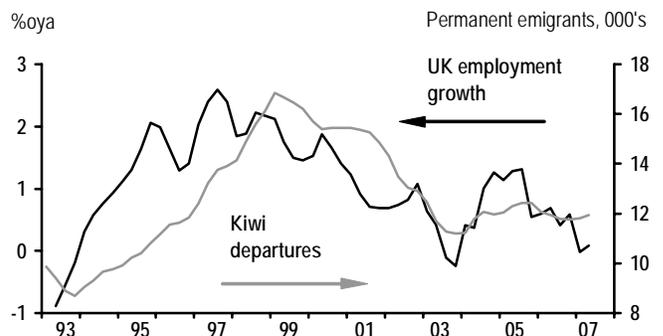
Australia also is a comfortable stepping stone to the world, as a number of emigrants stop off in Australia before continuing abroad. An important explanation for the leg down in migration to Australia in February 2001 (chart), is the change in social welfare laws that tightened up on Kiwis flying over and going directly onto welfare support. New Zealand migrants no longer can receive Centrelink payments until they obtain a permanent visa or become an Australian citizen, which is a lengthy process. The change thwarted Kiwi welfare recipients looking for a change of scenery, or cheeky travellers seeking a paid holiday.

Law changes aside, Australia remains the easiest country for Kiwis to emigrate to, and there has been a noticeable increase in the number of departures to the resource-rich nation. Employment growth in Australia has a significant impact on emigration flows (chart). Booming job opportu-

Kiwi emigration and Australian employment growth



Kiwi emigration and UK employment growth



nities in mining, means that the number of departures to Australia has climbed, to 40,000 per annum from 25,000 in 2003. Western Australia, the mining epicenter thriving in the midst of record high commodity prices, is demanding labor from within Australia and offshore, and wages have soared. Western Australia has experienced unprecedented growth in the last few years thanks to the resource boom, and in response migration to the state has surged.

A similar relationship holds for migration to the UK. When employment growth accelerates in the UK, more Kiwis are enticed offshore and New Zealand's skills shortage inevitably worsens. And, given that a substantial number of permanent emigrants stop off in Australia temporarily before continuing abroad, the flow to the UK is likely to be higher than the official numbers show.

In summary, New Zealand's labor force continues to lose skilled workers abroad, keeping its pool of available workers low and the market as tight as a drum. When labor markets tighten in Australia and the UK, New Zealand's market also tightens as workers venture overseas in search of more prosperous job opportunities. This inevitably will lead to higher wages in New Zealand as domestic companies compete in an increasingly globalized labor market. Rising wages in turn keep a solid floor under domestic inflation, meaning that the hurdle for RBNZ rate cuts is high.

2. The 2007 Hays survey showed gross annual wages across most job categories are significantly higher in Australia than New Zealand. The announcement of further tax cuts in Australia adds to the attractiveness of joining Australia's tight labor market.