BNZ Weekly Overview

20 September 2018

ISSN 2463-4328

Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

Immigration Benefits

An important piece of research was released in the UK this week by the Migration Advisory Committee. They undertook the most extensive research in a generation on the economic impact of immigrants in the UK and found the following. https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-eea-migration

The employment rate of immigrants from the European Economic Area (EEA = EU plus Norway, Iceland and Liechtenstein) is higher in the UK than UK citizens, even after allowing for the fact that most immigrants are young without family to support. However non-EEA immigrants had a lower employment rate.

Inflation adjusted wage rates were about 5% lower than they would otherwise have been after ten years for the lowest 10% of earners, and about 2% for the lowest 25%. But for the remaining 75% wages growth on average was boosted marginally.

Immigrants from the EEA paid more in taxes than they received in benefits over 2016/17, but non-EEA migrants paid less than they received.

Research on crime rates is mixed with more per capita thieving by eastern European immigrants but less violent crime and drug taking.

And according to the British Household Panel Survey in 1992 while 90% of people were happy with their neighbourhoods this had risen to 95% by 2015.

Overall the results show a positive impact on the UK from migration. Can we interpret these results as being likely to be replicated in New Zealand? To properly answer that we will have to wait for a long-term study which is currently underway. But New Zealand takes fewer refugees than the UK proportionately so would endure fewer rehabilitation and integration costs than the UK presumably.

But more importantly, non-Pacifica migrants can't just wander into NZ on a whim as any EU citizen has been able to in the UK. Presumably the need to have a job organised means the employment rate for immigrants in NZ would be even higher than for those in the UK.

But as noted, we await results of the NZ study currently in train.

Robots

The OECD also released a report this week entitled "Job Creation and Local Economic Development 2018: Preparing For The Future of Work" http://www.oecd.org/cfe/leed/LEED-Flagship-Policy-Highlights.pdf

Highlights from the report include these points.

- Over the past ten years jobs growth in countries has increasingly occurred in the capital regions, large cities, rather than the regions/rural areas.
- Skilled workers are increasingly concentrated in particular regions – less evenly distributed around a country than before.
- Young people of 15-29 are increasingly leaving rural areas for cities.
- Automation is leading to job losses and expected to continue to do so. But it is creating more jobs than those lost and is also expected to continue to do so.
- The problem is that job losses and job gains tend to occur in different regions in each country, and the types of jobs lost tend to be middle wage middle skilled while those gained are non-routine and tend to be higher skilled or low skilled. The skill distribution is becoming barbell-shaped.

A higher risk of automation is associated with areas that are rural, where people have lower education, and in tradable sectors like agriculture and manufacturing but not tradable services.

The report notes however that New Zealand, the United States, and northern Europe are less at risk of these effects than southern Europe.

If I Were A Borrower What Would I Do?

Finally, something new to say. This week BNZ cut fixed home lending rates across the board. The one year rate has declined to 4.19% from 4.29%, two year to 4.35% from 4.49%, three year to 4.49% from 4.85%, five year to 5.59% from 6.09%, and seven year to 5.95% from 6.15%.

If I were borrowing again at the moment I would now show a preference for fixing three years at 4.49%. The premium for an extra year's certainty beyond the two year rate is only 0.14% per annum. The four year rate is a full percentage point higher at 5.49% and I would not be prepared to pay that level of premium for extra rate certainty.

Why have the rates dropped when US monetary policy is still expected to be tightened, especially in light of consumer confidence surging and higher inflation coming from planned 10% tariffs on US$200bn worth of imports from China and a tightening labour market? The US ten year government bond yield has risen above 3.05% from 2.85% two weeks ago.

Here in New Zealand, while we pooh pooh the meaningfulness of current business sentiment readings, the fact remains that both employment and investment intention have shifted into negative territory, net migration inflows are slowly easing (though how much will soon be just guesswork because of data changes), construction activity seems to have peaked, consumer confidence is below average, and the Reserve Bank seems to be looking for an excuse to cut the official cash rate from the current 1.75%. The financial markets have increased pricing in of a rate cut in the coming year.

We still think a rate cut is not highly likely, especially considering this morning's stronger than expected 1.0% GDP growth revelation for the June quarter. The Reserve Bank had expected just 0.5%. But the change in pricing has caused some drops in wholesale interest rates. The three year swap rate for instance has declined to around 2.15% from 2.3% six weeks ago, and 2.5% four months ago.

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. **This edition has been solely moderated by Tony Alexander.** To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz