

MIGRATION AND THE NEW ZEALAND LABOUR MARKET

This article looks at the influences of relative wage rates and labour market conditions on the migratory behaviour of the New Zealand workforce in the 1980s.

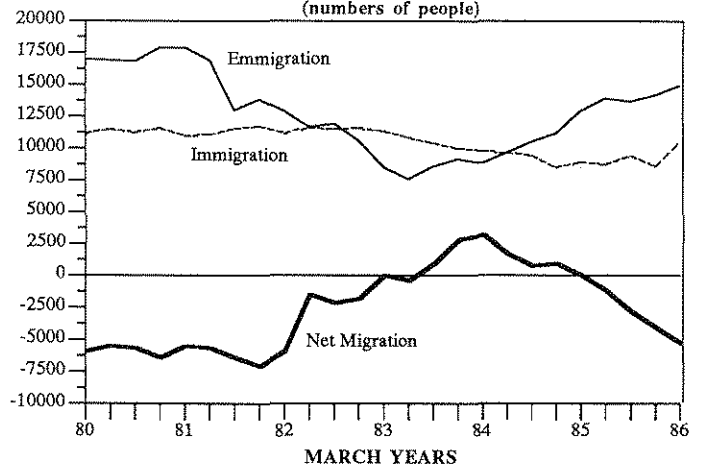
Introduction

In 1985 New Zealand experienced a large increase in its net migration outflow. In the year to December 1985 the net permanent and long-term migration outflow reached 19,342 compared to only 3,141 in the year to December 1984. This trend continued into 1986 with the latest estimates of the net outflow for the year to April totalling 21,427. A significant feature of New Zealand's migration outflow in recent times has been the high proportion, about 60 per cent, of residents leaving on a permanent basis who were actively engaged in the workforce. This article looks at the trends in New Zealand's migration pattern in the 1980s and investigates the influences of conditions in the New Zealand labour market, conditions in recipient labour markets and relative wage rates on the migratory behaviour of the New Zealand workforce.

Net and Gross Migration Pattern

New Zealand's migration patterns in the 1980s are presented in figure 1. It shows that the net migration outflow decreased over 1981 and 1982 and that a net migration inflow was recorded in 1983. Since then, however, the net outflow has steadily increased. This pattern has been largely the result of fluctuations in emigration levels, with the number of people immigrating to New Zealand on a permanent or long-term basis remaining relatively constant over the 1980s (there has been a slight downward trend since 1983, although in recent months the number of arrivals has turned up). The number of people leaving New Zealand has varied considerably over the 1980s, with a sharp decline between 1981-83 and a steady increase since mid-1983. Of those people leaving, an average of over 60 per cent were actively engaged in the workforce (refer figure 2) and about three quarters of New Zealand residents leaving on a permanent basis were emigrating to Australia. Thus, variations in workforce emigration to Australia have been the driving force behind New Zealand's net migration pattern in recent years. Possible reasons for these changes are outlined below.

Net Migration 1980-1986
seasonally adjusted by quarter
(numbers of people)



Departures By Employment
seasonally adjusted by quarter

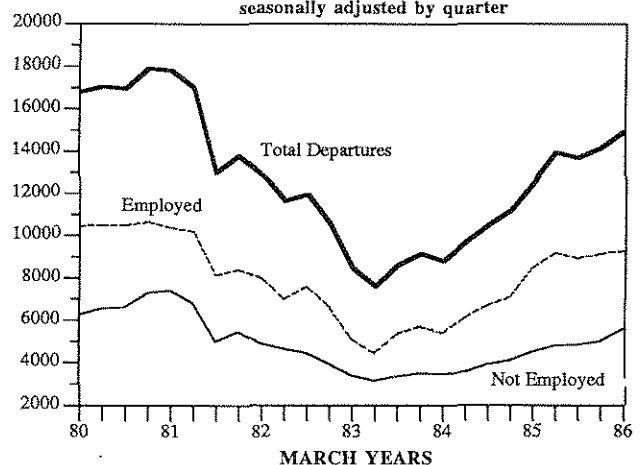


TABLE 1

Year	Net Perm & L/Term Migration ¹	Unemployment % Labour Force (NZ) ²	Unemployment % Labour Force (PMS) ³
1971	1,212	0.28	2.1
1972	7,553	0.51	2.9
1973	19,168	0.19	3.1
1974	27,477	0.01	2.6
1975	22,439	0.34	5.4
1976	5,300	0.44	5.4
1977	-19,072	0.59	5.9
1978	-26,708	1.75	7.4
1979	-40,200	1.96	7.0
1980	-34,417	2.80	6.7
1981	-24,825	3.65	6.3
1982	-11,482	3.89	7.0
1983	3,180	5.65	10.7
1984	6,558	4.85	10.4
1985	-8,084	4.0	9.3

- 1 Measured as at April prior to 1980 and as at March from 1980 onwards.
Source: Department of Statistics.
- 2 Measured as at February quarterly labour force summary.
Source: Department of Labour, Dept of Statistics.
- 3 Measured as at February quarterly labour force survey.
Source: Australian Bureau of Statistics.

TABLE 2

	Australian Unemployment Rate ¹	New Zealand Unemployment Rate ²	Gross Quarterly Migration Outflows ³
1981 (3)	5.6	3.6	11,475
1982 (1)	7.0	3.7	14,777
(3)	6.7	3.8	10,533
1983 (1)	10.7	5.4	10,234
(3)	10.4	5.8	7,313
1984 (1)	10.4	5.6	10,510
(3)	8.6	4.6	9,325
1985 (1)	9.3	4.0	14,643
(3)	7.9	3.5	12,578

- 1 Source: Australian bureau of statistics.
- 2 Source: Department of Labour's Quarterly Employment Survey.
NB Because of the different methods by which the two countries measure employment, country comparisons of unemployment levels at a specific point in time cannot be made, but comparisons over trends over time can be made.
- 3 Source Department of Statistics.
- 4 Measured in the second quarter 1983.

TABLE 3

Year (Qtr)	NZ Average Nominal Weekly Wage (\$NZ) (Includes Overtime) ¹	Australian Avg Nominal Weekly Wage (\$NZ) (including Overtime) ^{2,3}	Ratio (Aus/NZ)
1981 (3)	\$252.34	\$341.77	1.35
1982 (1)	\$270.60	\$368.16	1.36
(3)	\$282.80	\$380.25	1.34
1983 (1)	\$293.06	\$395.13	1.35
(3)	\$290.21	\$407.42	1.40
1984 (1)	\$301.60	\$453.69	1.50
(3)	\$305.07	\$566.71	1.86
1985 (1)	\$322.90	\$548.46	1.70
(3)	\$335.16	\$461.82	1.38

TABLE 3A

Real (Qtr)	NZ Avg Real Weekly Wage (\$NZ) Base 1981 ⁴	Aus Avg Real Weekly Wage (\$A) Base 1981 ⁴	Index (Aus/NZ) 1981(3) = 1000
1981 (3)	\$252.34	\$247.20	1000
1982 (1)	\$252.43	\$253.96	1027
(3)	\$242.54	\$253.78	1067
1983 (1)	\$242.80	\$249.92	1050
(3)	\$235.94	\$245.15	1060
1984 (1)	\$241.47	\$256.83	1086
(3)	\$231.99	\$263.23	1158
1985 (1)	\$227.88	\$260.41	1166
(3)	\$219.06	\$254.43	1185

- 1 Measured at February & August from the Department of Labour's employment survey.
- 2 Measured at February & August.
Source: Australian Bureau of Statistics.
- 3 The Australia/NZ exchange rate is the average exchange rates for the quarter.
- 4 Nominal average weekly earnings deflated by CPI (Sept: 1981 base).
Source: Department of Statistics.
Australian Bureau of Statistics.

Wage Differentials

If it is assumed that an improvement in economic welfare is a major objective of prospective migrants, then the relative post-tax real purchasing power of Australian and New Zealand salaries and wages in the migrant's particular occupational group is likely to be an important determinant of migration flows. It is possible, however, that many prospective migrants will have only a hazy idea of relative real standards of living and may tend to use the more readily comparable relative nominal wages as a measure of economic well-being. Relative Australian and New Zealand rates of nominal remuneration could therefore be an important guide to price signals in the trans-Tasman labour market.

Table 3 outlines the movement in Australian and New Zealand nominal average weekly earnings in the 1980s while table 3A provides a comparison in real terms (i.e. after adjusting for inflation rates in the two countries). From table 3, it can be seen that the Australian nominal weekly earnings have been continually higher than New Zealand's with the margin remaining relatively constant over the period 1981-83, widening sharply from mid-1983 to early 1985, before falling back again since early 1985.

A comparison with the migration trends discussed earlier suggests that there has been only limited correlation between variations in migration outflows and changes in relative nominal weekly earnings over this period. In particular, movements in the ratio of nominal average weekly earnings do not appear to have accounted for the significant decline in migration outflows recorded between 1981 and 1983. More recently, however, the turnaround in net migration flows from mid-1983 onwards did coincide with a widening in the margin between nominal wages in Australia and New Zealand. In particular, there appears to have been a strong lagged response to the sharp upturn (in New Zealand dollar terms) in Australian wages which occurred after the devaluation of the New Zealand dollar in July 1984.

Since then, table 3 shows that there has been quite a significant fall in the ratio of Australian to New Zealand average nominal wages. The relatively high recent wage round in New Zealand, combined with the continued strength of the New Zealand dollar, has probably meant that the ratio has recently fallen below the levels of the early 1980s. As yet there has not been a corresponding fall in the level of migration to Australia. In part this might be due to the lags between changes in market signals and changes in actual migration rates. However, another factor is likely to be the higher rate of inflation experienced in New Zealand over the last eighteen months. As shown in table 3A, real wages in New Zealand have, at least until recently, been falling, whereas rates in Australia (measured in Australian dollars) have been more or less constant. As a result, the real wage gap between the two countries has not closed as far as a comparison of nominal wage earnings would suggest. Towards the end of 1985 the margin still remained higher than in the early 1980s and this may at least partly account for the continuing increase in emigration levels.

Despite this, it would appear that other factors besides movements in average wage payments must be affecting migration patterns. While a relative wage gap would appear to be a necessary condition for a net flow to Australia, it is not sufficient.

Labour Market Conditions

In general, if unemployment levels in New Zealand were rising one would expect higher net migration outflows as more New Zealanders leave the country and/or fewer foreigners immigrate to New Zealand in search of employment opportunities. Conversely, when local employment levels are falling migration patterns would show larger inflows of permanent and long-term migrants. However, if labour market conditions in other countries were as bad or worse than local labour market conditions, then the prospective migrant would be less likely to leave. Although real wages in Australia might be higher, this is of little benefit if the migrant has a poor chance of actually obtaining a job. In addition New Zealand migrants are generally not eligible for unemployment benefits until six months after arriving in Australia, which further increases the cost of unsuccessful job search.

Thus, it is the state of the New Zealand labour market, relative to Australian labour market conditions, which will tend to influence workforce migration. In 1983, for example, New Zealand unemployment was at a peak, but at the same time the recession in Australia meant that labour market conditions there were even tighter. Consequently, emigration levels declined and there was a net migration inflow despite record levels of unemployment.

Over the last two years, on the other hand, the Australian economy has experienced strong economic growth and unemployment has fallen considerably. As a result, workers started to leave to take advantage of higher paying Australian jobs, despite the fact that New Zealand was also experiencing an economic upswing and a pronounced improvement in the domestic labour market.

Emigration and Skill Groups

So far the analysis has only looked at the possible relationship between aggregate migration flows, average pay rates and overall labour market conditions. In reality labour markets consist of a number of sub-groups of workers with different levels and types of skills. It is possible therefore that the overall analysis may miss developments which are affecting only part of the total market. For example, one popular hypothesis which has been advanced is that there has been a widening in the general margins paid for skilled workers in most western economies in recent years and that the recent increase in migration from New Zealand is a response to this. A picture of recent developments is given in figure 3, which shows emigration rates (per 1,000 of total employment) for three broad categories of work skills; skilled, semi-skilled and unskilled. These ratios should be treated with some caution as the delineation between the categories of skill is not precise, and in addition there may be some tendency for outward migrants to overstate their skill levels which would tend to bias the skilled category upwards. Nevertheless, several broad patterns are reasonably apparent.

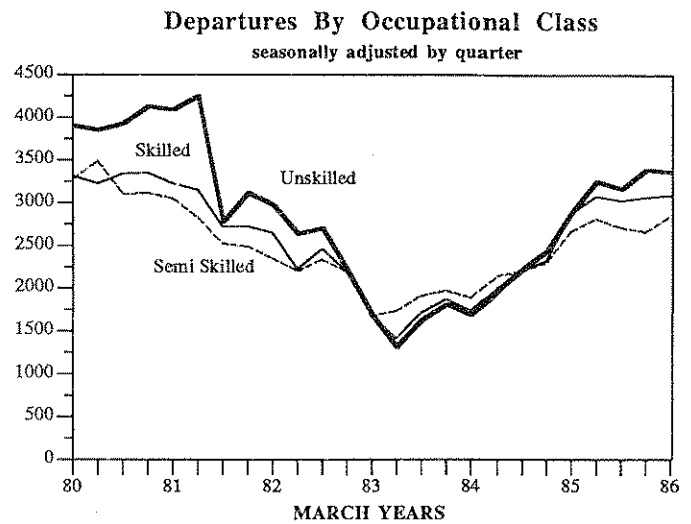
The first is that skilled workers have a higher emigration rate than the semi-skilled and unskilled workers. This is not unexpected, given that skilled workers have generally been in shorter supply than unskilled workers in nearly all economies over the last decade or more. This has helped promote immigration

laws which restrict or effectively close labour markets to unskilled workers while leaving skilled workers to move about more freely in international labour markets. Furthermore, skilled workers tend to be better paid than semi-skilled and unskilled workers and are generally in a better position to meet the costs of emigration.

Secondly, the semi-skilled and unskilled migration rates have exhibited cyclical behaviour which is similar to the skilled rate, suggesting that the forces affecting emigration are common to all three broad skill categories; and third, the unskilled emigration rate exhibits greater proportional changes than the skilled emigration rate. This can be more clearly seen from figure 4 which shows emigration levels for each category by actual numbers leaving, rather than as a proportion of the total numbers employed in each category.

While the unskilled migration rate is lower than that of the skilled group (from figure 3) the unskilled constitute a larger proportion of the total workforce. Consequently they have accounted for a large part (generally more than one-third) of total labour force emigration over the 1980s and have accounted for over forty per cent of the increase in emigration since the low point in 1983. By contrast skilled worker migration accounted for less than one quarter of the increased emigration over the latter period. This would tend to suggest that pay differentials and changes in these differentials have had only a limited effect on recent changes in migration patterns. This view is confirmed by data on relative Australian and New Zealand pay rates. In general they show that skill differentials are quite similar in both countries and that there have been no significant changes in these differentials during the 1980s.

It would appear that the principal explanation for the greater degree of volatility in unskilled migration rates lies in the way the Australian labour market operates. As skilled workers (particularly amongst management) are generally less likely to belong to unions, or to be



affected by minimum pay legislation and by other institutional rigidities, their actual rates of remuneration are more likely to be close to market-clearing rates, even during economic downturns. Prospective migrants in the skilled category will therefore have a reasonable chance of finding a job at the established rate, so that labour market conditions are less important as an influence on migration levels. For the unskilled this is less likely to be the case, particularly during recessions, as real wages are generally not flexible enough to fully reflect changes in the demand for unskilled labour. During economic downturns therefore, unskilled vacancy rates fall to very low levels and as there is little chance of obtaining a job, the migration rate also falls sharply. When the economy recovers, positions become available at the going rate and unskilled migration rates show a larger proportionate increase than skilled rates.

Conclusion

In conclusion, New Zealand's migration pattern over the 1980s has been driven in large part by the outflow of New Zealand workers to Australia. The motives behind the migration outflow centre on the interrelationships between relative labour market conditions and relative wage differentials across the Tasman. The consistently higher real wages in Australia have made emigration from New Zealand generally an attractive proposition. However, relative wage differentials are a necessary, but not a sufficient condition for emigration. The prospective emigrant must also have a reasonable chance of finding a job. Unemployment in the Australian labour market tends to affect skilled workers less than unskilled workers and the variation in unskilled migration patterns over the 1980s in response to Australian labour market conditions has dominated the short run variations in New Zealand's migration outflow over this period.

Departure Rates By Occupation
seasonally adjusted by quarter
(persons per thousands)

