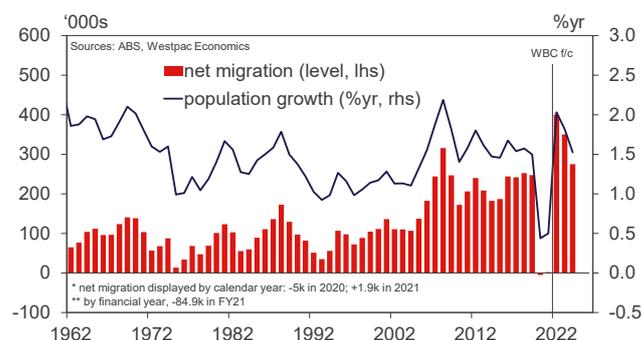


23 February 2023

Migration 'reopening' boom: 2022 net inflow estimated at +400k

- The pandemic caused a sudden and extreme shift in population dynamics in Australia.
- The reopening has unleashed a migration surge, the likes of which haven't been seen since post-WWII.
- Official estimates already have net migration at a sizeable 156k in H1 2022, and current indicators suggest that migration flows continued to strengthen into H2 2022.
- Westpac estimates net migration totalled +400k in 2022, reflecting a temporary 'catch-up' in migration flows.
- Westpac expects a gradual easing to emerge over the course of 2023 and 2024, to +350k and +275k respectively.
- Inflationary and disinflationary consequences will emerge as a result, the net impact of which is uncertain.

Net migration surge to lead a quick recovery



2020 & 2021: the closure

In the days after the first reported case of COVID-19 in Australia in late January 2020, the Government began implementing a staggered closure of the international border. On March 20, the border was officially closed to all non-residents and non-citizens, and Australians were banned from travelling overseas.

The general border closure – which remained in place for nearly two full years – saw annual net migration turn negative (i.e. net emigration) for the first time since 1946 and Australia's population growth plummet to its lowest level in over 100 years.

To determine whether a migrant adds to the population size, the ABS utilises the 12/16 framework, meaning a migrant must stay in Australia for a period of 12 out of 16 consecutive months.

The ABS estimates that over the 2020-21 financial year, there was a net emigration of 84.9k people, the bulk of this being concentrated in H2 2020. That loss is in addition to the opportunity cost of the net migration that would have materialised had the pandemic not occurred, which according to the four-year pre-pandemic average, would have been 235k.

Over this period, many temporary visa holders were forced to return to their country of citizenship or move onto a bridging visa, some of which have limited work rights.

Indeed, data from the Department of Home Affairs suggests that between March 2020 and December 2021, the 'stock' of temporary visa holders among key visa classes in Australia (including working holiday makers, skilled employment and students) collapsed by 400k. Over that same period there was a significant take-up of bridging visas, totalling 77k.

Ultimately, the pandemic caused a sudden and extreme shift in population dynamics in Australia. That is reversing quickly given the major threats from the pandemic have now passed.

2022: the boom

Almost exactly one year ago on 21 February 2022, Australia's borders reopened to fully vaccinated individuals across the world. Since then, it has become increasingly evident that a net migration surge is well underway, stronger than what was initially expected coming out of the pandemic.

According to the official quarterly population estimates from the ABS, net migration has totalled 156k over H1 2022. Despite having closed borders to most of the world for nearly two months, net migration in H1 2022 was just 3k under the H1 record of 159k in 2008.

Although we have not yet received any official data regarding net migration beyond H1 2022, limited but timely indicators are pointing to a further strengthening over H2 2022.

Monthly data on overseas arrivals and departures (recording number of trips taken) indicates that net visitor arrivals have lifted from 419k in H1 to 676k in H2. Given that the border reopening began in late February, the recovery in visitor travel only started to pick up substantially around mid-year, with this strength being sustained through to the end of 2022.

A similar theme is also found within net visa arrivals (distinct from 'net visitor arrivals'). H1 2022 was largely characterised by a substantial backlog of visa applications and extreme delays in visa processing. As these issues began to resolve, net arrivals surged in the 'temporary work' group of visas (including skilled, working and other temporary visas), and the strength in net student arrivals was largely sustained too.

In our view, the surge in net migration is beginning to have a material impact on the labour market too, with growth in the working age population rising to be well above pre-pandemic levels at an elevated 2.1%yr.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Data from the Department of Home Affairs on visa applications and grants are also constructive to the outlook. Across the key working visas such as working holiday makers, temporary skill shortage and temporary graduates, grant volumes have all lifted above their respective pre-pandemic levels and are continuing to rise. There has also been an appreciable lift in student visa applications and grants through to end-2022, coinciding with the relaxation of work-hour and industry conditions in order to alleviate extreme labour supply pressures in Australia.

Also, with the removal of COVID-zero restrictions in China now freeing up travel and the Chinese Government's mandate for students to return to in-person learning, arrivals from China are set to jump this year, complementing the strength already being seen in arrivals from India, which has been the key support in Asia since the border reopening.

It is important to note that the precise relationships between these data sources are not direct and there is uncertainty about how the strength of these indicators are reflected in the official estimates of net migration from the ABS.

2023 & 2024: the recovery

Given the severity of the collapse in net migration over the course of the pandemic and evidence emerging on the 'surge' to date, we believe that the recovery in net migration will be much stronger and more sustained than the Government's forecasts, which assumes a return to the pre-pandemic trend level of 235k in FY23.

By calendar year, Westpac estimates net overseas migration to print +400k for 2022. This historic high - well above the +316k print in 2008 - represents a temporary 'catch-up' from the substantial loss of net migration flows over the pandemic

This will be followed by a gradual easing over the course of 2023 and 2024 as migration targets are likely to be pared back in response to the boom over 2022. Coming from an historic high, Westpac expects net migration to still print sizeable gains in these years, totalling +350k in 2023 and +275k in 2024.

There is a great deal of uncertainty around what the near-term net impact of a historic surge in net overseas migration will be on inflation, especially during a period of rising interest rates and slowing growth.

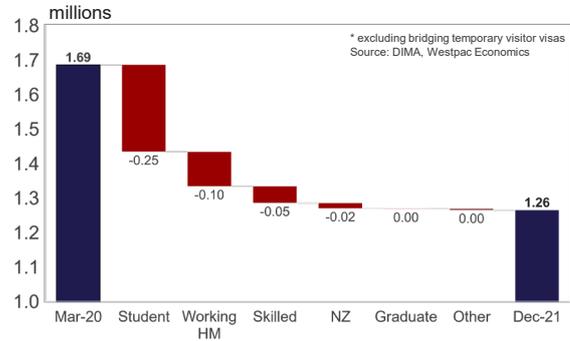
On the one hand, sudden growth in the population represents an expansion in the aggregate spending capacity of households, materialising as stronger demand-side inflationary pressures. While relatively small at the margin, the effects of this may be larger in markets with an extremely tight supply-demand balance, such as rental markets in major capital cities.

Simultaneously though, a surge in net migration will expand the size of the labour force. Given the current strength of labour demand as evinced by business and household surveys, more job vacancies would be filled, leading to an increase in employment growth. If this were to be large enough to see increases in unemployment or underemployment (unemployed and those who want to work more hours), then on balance, the labour supply effects would be enough to outweigh the demand-side impacts.

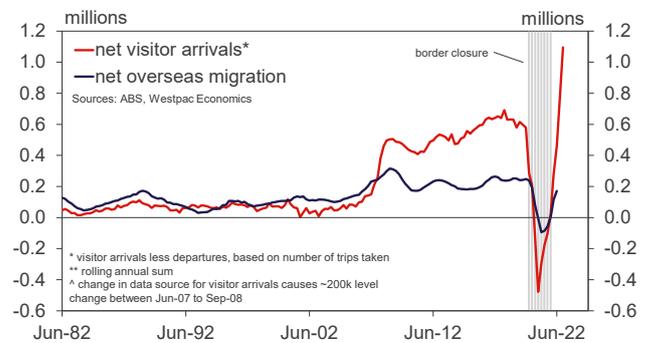
Overall, the pandemic caused an extreme shift in population dynamics in Australia. This will continue to materialise over the coming years as net migration flows break historic highs, lifting to +400k in 2022; +350k in 2023; and +275k in 2024.

Ryan Wells, Economist

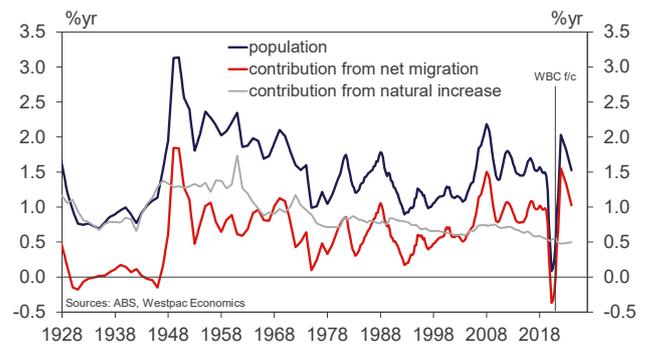
Temp visa holders in Australia: net change



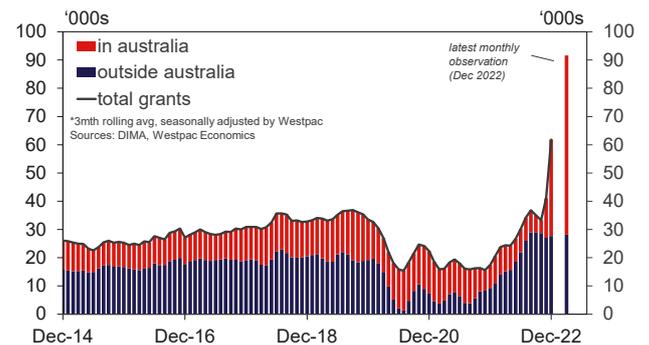
Net visitor arrivals explode into year-end



Population growth and net migration history



Student visa grants: backlog reduction



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

© Copyright 2023 Westpac Banking Corporation

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customer@xylo.com.au.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

Disclaimer continued overleaf

Disclaimer continued

Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- I. Chinese Wall/Cell arrangements;
- II. physical separation of various Business/Support Units;
- III. Strict and well defined wall/cell crossing procedures;
- IV. a “need to know” policy;
- V. documented and well defined procedures for dealing with conflicts of interest;
- VI. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.