



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HĪKINA WHAKATUTUKI

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# Quarterly Labour Market Report

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February 2018

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## Ministry of Business, Innovation and Employment (MBIE)

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## New Zealand's Labour Market

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- Labour demand remains robust, with strong quarterly employment growth.
- We expect labour demand to remain solid over the next 3 years, driven by construction, business services, health and education.
- Labour supply has been growing strongly, on the back of migration-led population growth, and record participation rates.
- Outcomes for Māori and Pacific Peoples have improved over the year on the back of strong employment growth, but still lag the rest of the population.
- The labour market is tightening, with spare capacity drying up, and businesses finding it harder to get workers with the right skills, even with the strong growth in labour supply.
- Tightening of the labour market is yet to be reflected in wage growth, despite one-off increases from pay settlements with carer and support workers.

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# 1. Labour Demand

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## ■ SUMMARY

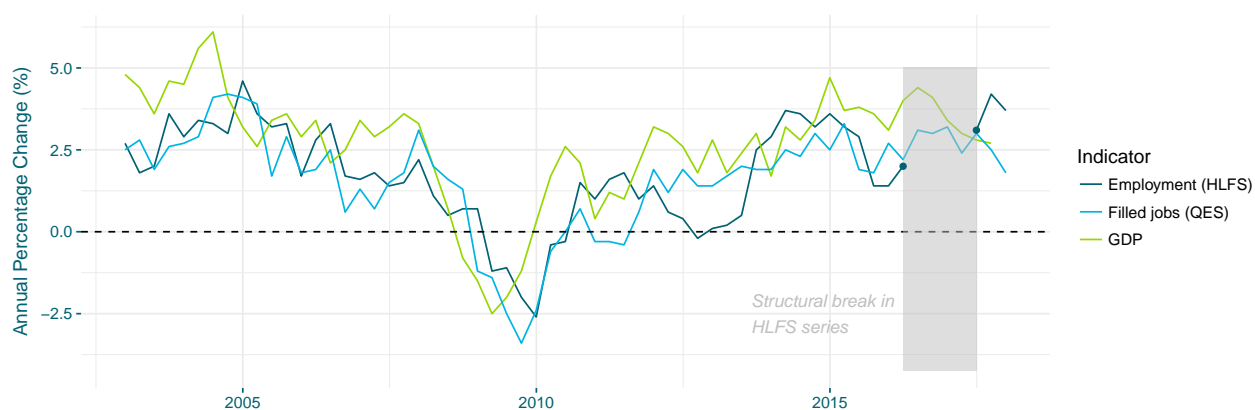
- Employment has kept pace with population growth.
- Employment growth has a broad mix of industrial and regional drivers.
- Firms are reporting increasing difficulties finding labour.
- We expect labour demand to remain solid over the next 2-3 years, with strongest growth among highly-skilled occupations.

### **Employment has kept pace with population growth**

Employment increased by 12,000 in the December quarter, as full-time growth (13,000) more than offset a decline in part-time workers (down 1,000). Employment kept pace with population growth, and New Zealand's employment rate (the proportion of the population who are employed) remained at an all-time high of 67.8 per cent. This rate is high by international standards: only Switzerland and Sweden employ a greater percentage of their working-age population.

As with the previous quarter, other labour demand measures provided a slightly mixed picture. The Quarterly Employment Survey's (QES) measure of filled jobs rose 0.3 per cent over the quarter, and 1.8 per cent over the year: the lowest annual growth since September 2015. The Household Labour Force Survey measure of hours worked fell 0.6 per cent in December, although this follows a 2.6 per cent jump in September. The overall picture is one of solid growth heading into 2018.

Figure 1: Indicators of Labour Demand



Sources: Household Labour Force Survey (HLFS), Quarterly Employment Survey (QES), National Accounts

### Employment growth is broad-based

Over the year to December, employment grew by 92,600 (3.7 per cent).

At an industry level, the main drivers of employment growth were professional and administrative services (up 25,900), construction (up 12,900), manufacturing (up 11,100), public services (up 8,200) and health care and social assistance (up 7,800). At the regional level, growth was driven by Auckland (up 30,300), Waikato (up 18,500) and Wellington (up 16,100), with only Manawatu-Wanganui and Southland showing declining employment over the year.

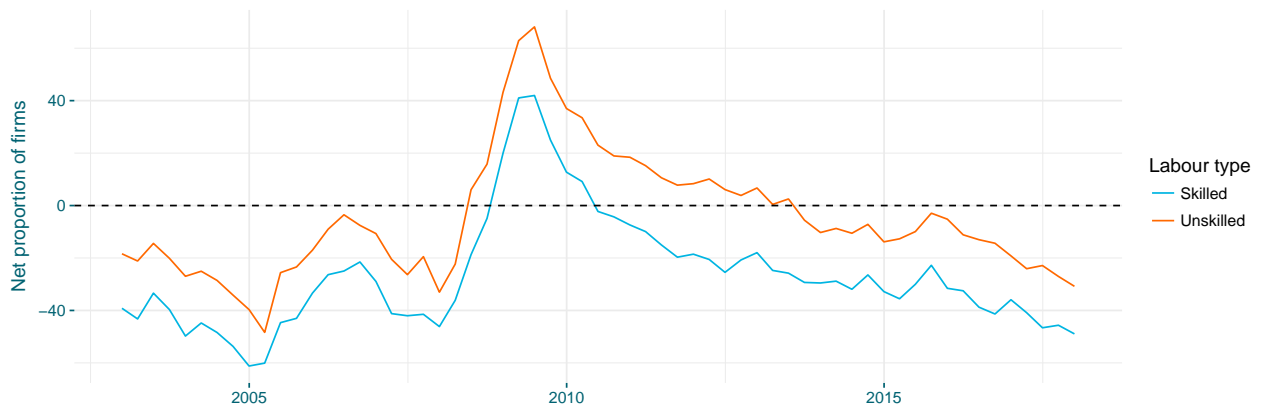
Professional and administrative service growth was concentrated in Auckland (up 11,800) and Wellington (up 8,800), and reflects increased employment in construction-related professions (architectural, engineering and technical services) and building maintenance (cleaning, pest control and gardening services). Construction employment growth came mostly from outside the main centres, with Auckland and Wellington accounting for growth of 4,400 and 2,900 respectively; and Canterbury recording a fall of 2,800. Manufacturing showed a similar pattern, with over half of its growth coming in regions other than Auckland, Wellington and Canterbury.

### Businesses report increasing difficulties in finding labour

Reported labour shortages have become more acute over the December quarter. According to NZIER's Quarterly Survey of Business Opinion (QSBO), a net 49 per cent of businesses had trouble finding skilled labour and 31 per cent of businesses had trouble finding unskilled labour.<sup>1</sup> These difficulties have been steadily increasing since 2009.

<sup>1</sup>NZIER, Quarterly Survey of Business Opinion, December 2017

Figure 2: Ease of finding labour

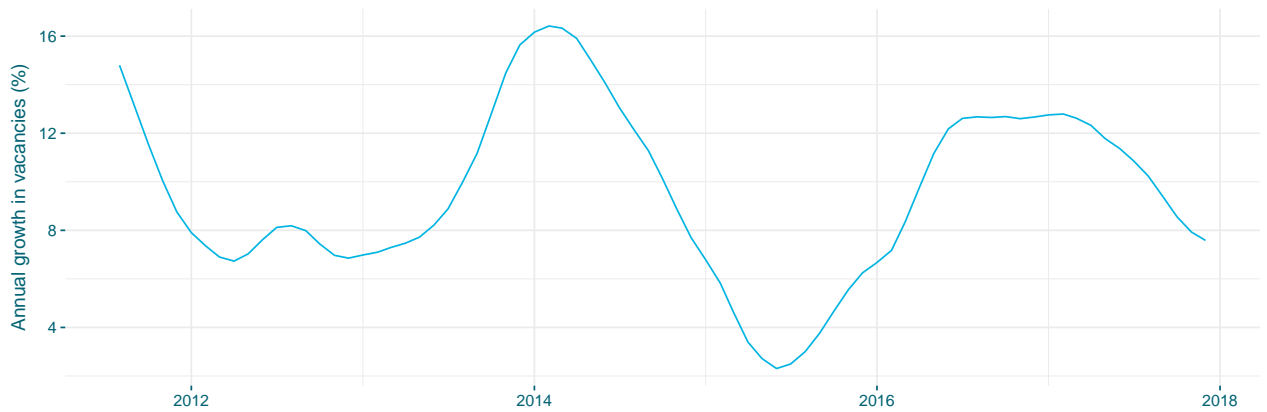


Source: NZIER Quarterly Survey of Business Opinion

These difficulties in finding labour are starting to impact the ability of firms to grow. In the QSBO, twenty per cent of businesses reported that labour was the single factor most limiting their ability to increase turnover. That percentage rises to 39 per cent among builders.

Against this backdrop, growth in job vacancies appears to be slowing. Annual growth in MBIE’s Jobs Online vacancy index has been easing over the past year, with similar patterns present in ANZ’s job ad data.<sup>2</sup> In both cases, the slow-down is driven by the main centres, with decent growth continuing in the smaller regions.

Figure 3: Annual growth in all vacancies



Source: MBIE Jobs Online

<sup>2</sup>ANZ New Zealand Job Ads, January 2018

## **Employment growth will remain solid over the next 2-3 years**

MBIE forecasts total employment growth of 153,000 over the three years to 2020. Business services (up 33,300) will make the biggest contribution to this growth, followed by construction and utilities (up 19,400) and health care and social assistance (up 15,500). At a regional level, we expect growth to be fastest in Auckland and Waikato, and in the rural regions of the South Island.<sup>3</sup>

Growth will be strongest for highly-skilled occupations, particularly business and system analysts and programmers; legal professionals; ICT managers; architects, planners and surveyors; and advertising, PR and sales managers. For lower skilled workers, opportunities will be strongest for office and practise managers; prison and security officers; contract, program and project administrators; drivers and construction and mining labourers.

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<sup>3</sup>MBIE, Short-term Employment Forecast 2017-2010. These forecasts show the likely path of employment growth assuming economic growth in line with Treasury's Economic and Fiscal Update

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## 2. Labour Supply

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### ■ SUMMARY

- Labour supply remains elevated, with both population growth and participation at historic highs.
- Work visas are the main drivers of increased migrant arrivals, as return of New Zealand citizens slows, and student visas decline.
- We expect net migration to gradually decline over the next two years.

### **Labour force participation rate at historic high**

New Zealand's working-age population continued its solid growth, rising by 0.5 per cent (18,000 people) over the December quarter. This is the 16th consecutive quarter in which population growth was at 0.5 per cent or higher. The labour force participation rate fell slightly over the quarter, down 0.1 percentage points to 71.0 per cent, as population growth outpaced labour force growth, but is still at historically elevated levels.

### **Net migration to decline**

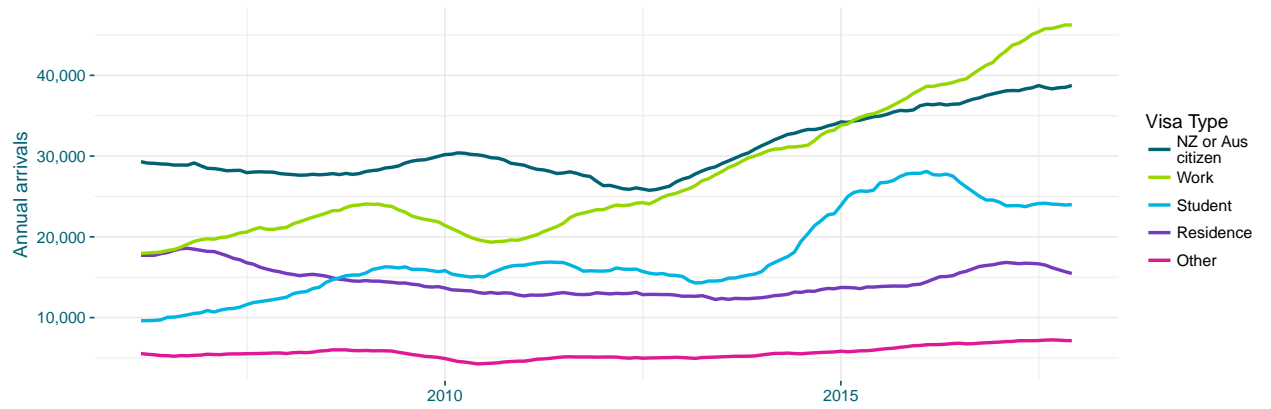
New Zealand's annual net gain of migrants has fallen from its record peak, but is still high by historic standards. A net 70,000 people migrated to New Zealand in the year ending December 2017, comprising 131,600 arrivals and 61,600 departures. This is down from the record high of 72,400 net gain recorded in the year ending July 2017.

After four years of strong growth, arrivals have levelled off. While work visa arrivals are still growing (up 4,600 over the past year), annual student arrivals have fallen substantially off their peak in 2015. This is associated with a large fall in net migration from India, which has dropped from 13,300 in the year to December 2015, to 6,700 in the year to December 2017.

We expect annual net migration to decline to 56,000 in September 2019, driven by strong rise in departures of non-New Zealand citizens, and arrivals levelling off.



Figure 4: Annual migrant arrivals by visa type



Source: Statistics New Zealand International Travel and Migration

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## 3. Labour Market Outcomes

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### ■ SUMMARY

- Spare labour capacity continues to decline, as unemployment falls. Underutilisation is also trending downwards, despite increases over the quarter.
- Māori outcomes improve over the year, but still lag the rest of the population.
- Youth outcomes remain steady.
- Tightening labour market yet to impact wages.

### **Spare labour capacity continues to decline**

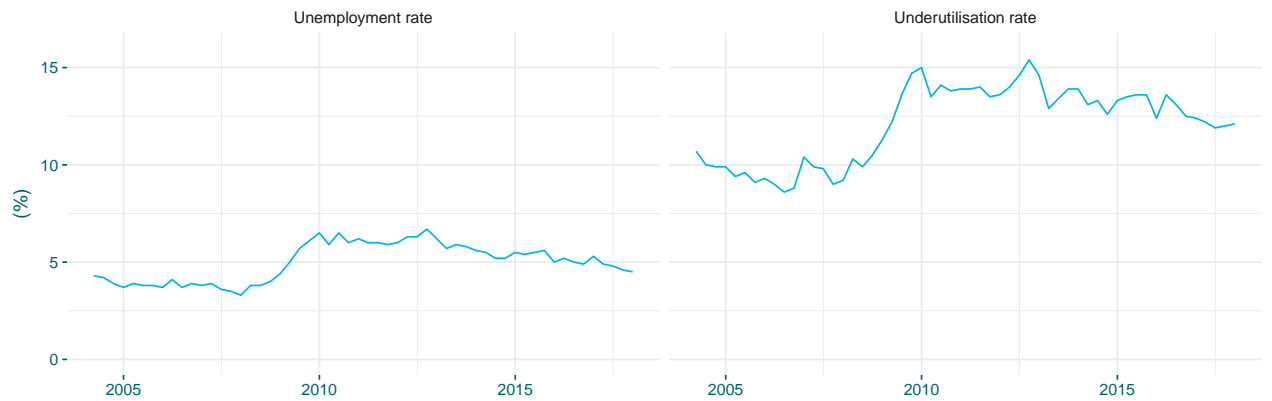
The unemployment rate fell 0.1 percentage points over the quarter to 4.5 per cent, the lowest since December 2008. This reflects 4,000 fewer unemployed people over the quarter. Since peaking in 2012, the unemployment rate has been steadily trending downwards.

The underutilisation rate rose 0.1 percentage points over the quarter to 12.1 per cent. The increase was driven by a 7,000 increase in underemployed workers (those who work part-time who are both available for and seeking more hours). The increase in underemployment was mainly driven by females, with a 6,000 increase in female underemployment.<sup>4</sup>

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<sup>4</sup>The underutilisation rate is the number of underutilised people divided by the extended labour force. Underutilised people are anyone unemployed, underemployed (part-timer seeking and available for more hours), an unavailable jobseeker (looking for work, but not yet available to start), or an available potential jobseeker (available for and wanting work, but not actively seeking it). The extended labour force is the labour force (employed plus unemployed) and the potential labour force (unavailable jobseekers plus available potential jobseekers)

Figure 5: Indicators of spare labour capacity



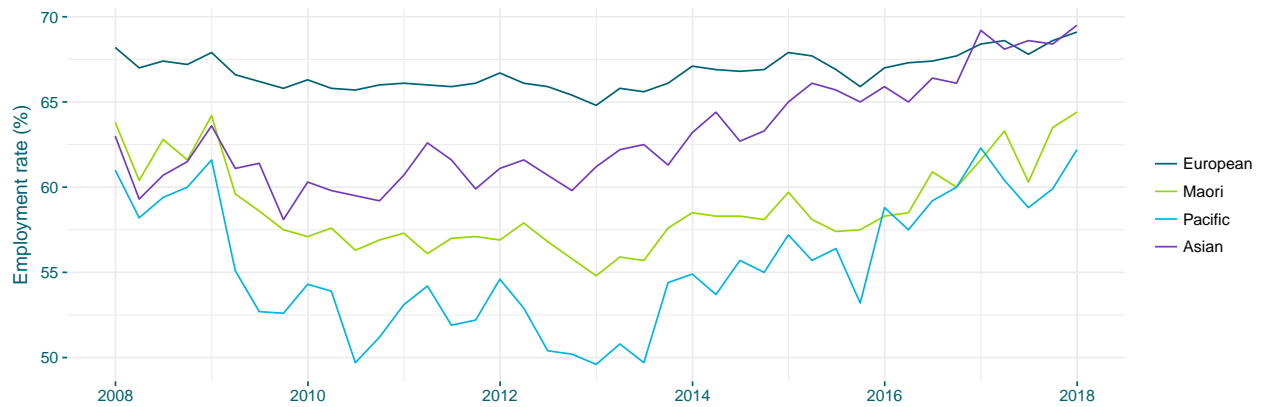
Source: Household Labour Force Survey

### Māori outcomes have improved over the year

Over the past year, outcomes for Māori have improved. Māori employment grew by 19,000 over the year, pushing their employment rate up to 64.4 per cent, the highest since the series began. There has been a general upward trend in the employment rate of Māori and Pacific Peoples since 2013, although both still lag the rest of the population.

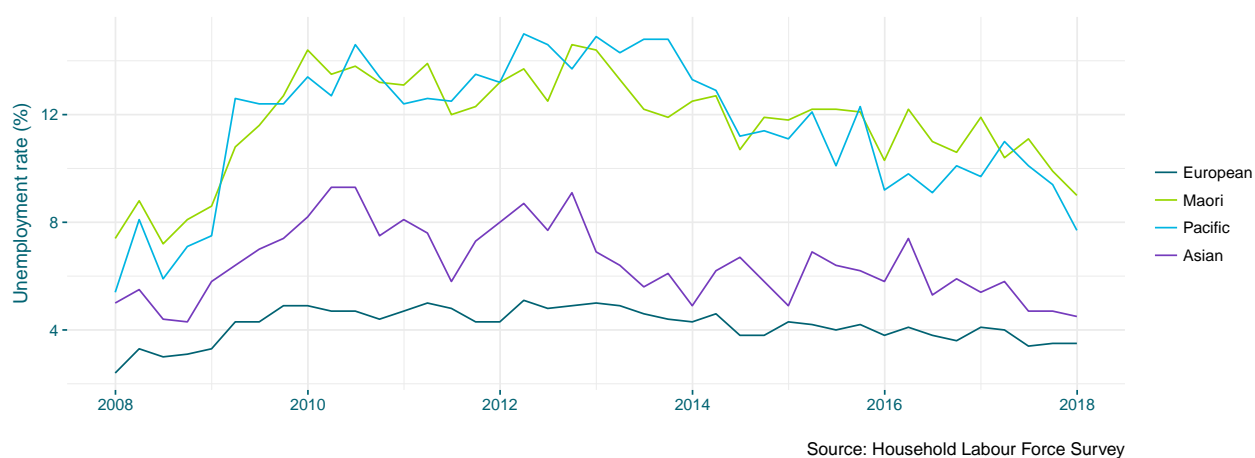
The unemployment rate for Māori fell 2.9 percentage points over the year to 9.0 per cent, the lowest it has been since December 2008.

Figure 6: Employment rates by ethnicity



Source: Household Labour Force Survey

Figure 7: Unemployment rates by ethnicity



### Youth outcomes remain steady

The overall NEET rate for 15-24 year olds rose 0.6 percentage points over the quarter to 11.9 per cent. This was driven by a rise in males aged 15-19 who were not in the labour force, not in education and not caregiving, which pushed up the overall NEET rate for 15-19 year olds to 8.5 per cent (up 1.3 percentage points). The NEET rate for 20-24 year olds was unchanged at 14.8 per cent. Despite recent volatility, the trend for NEET rates has been relatively stable since 2012.

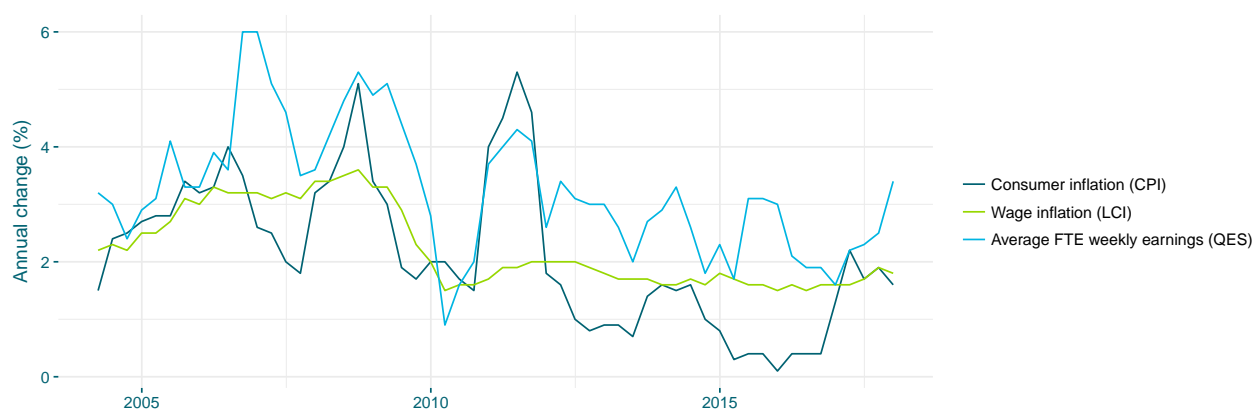
The NEET rate for Māori has been generally declining since 2009, and in December hit its lowest level since the series began in 2007, 16.6 per cent, a fall of 4.5 percentage points from December 2016.<sup>5</sup>

### Tightening labour market yet to impact wages

The Care and Support Workers (Pay Equity) Settlement Act, which came into effect on 1 July 2017, continues to be a major driver of wage growth. The Act mandated an increase in wages for workers in aged and disability residential care, and home and community support workers, and its impact can be seen in strong wage growth in the health care sector.

<sup>5</sup>Figures for Māori are not seasonally-adjusted

Figure 8: Indicators of wage growth



Sources: Labour Cost Index (LCI), Quarterly Employment Survey (QES), Consumer Price Index (CPI)

The Labour Cost Index (LCI)- which measures changes in rates employers pay to have the same job done to the same standard- rose 1.8 per cent in the year to December, and would have raised 1.6 per cent in the absence of the Pay Equity settlement. This rate is roughly what we have seen since 2010. Beyond Pay Equity, collective employment agreements for primary and secondary school teachers, residential medical officers and police officers all contributed to this rise.

The QES showed stronger wage growth, with average ordinary time hourly earnings up 3.1 per cent to \$30.68, and weekly earnings per full-time equivalent employee up 3.4 per cent to \$1,192.85. Higher healthcare wages contributed to this growth, as did wage growth in the professional and administrative services sector.

New Zealand is in line with other advanced countries in having relatively subdued wage growth despite falling unemployment. Underutilised labour may answer part of this puzzle, as a source of additional spare capacity. Another reason may be a mismatch between the skills businesses are seeking, and what is available to them. The Reserve Bank of New Zealand has pointed to another possibility, which is that the global financial crisis has had a long-term scarring effect, reducing employees' expectations of wage increases, and lowering businesses' willingness to offer substantial pay rises.<sup>6</sup>

<sup>6</sup>Reserve Bank of New Zealand, Monetary Policy Statement, May 2017

