



Quarterly Labour Market Report

November 2017



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**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
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New Zealand's Labour Market

- Labour demand remains robust, with quarterly employment growth among the highest on record.
- 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.
- 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.

1. Labour Demand

■ SUMMARY

- Labour demand strong, despite mixed indicators.
- Employment growth reflects buoyant economic activity across a broad range of sectors, particularly professional services, construction and education.
- Firms are finding it harder to find labour, particularly skilled labour.
- We expect labour demand to remain solid over the next 2-3 years, underpinned by construction, business services, health and education. Employment growth will be strongest for highly-skilled workers.

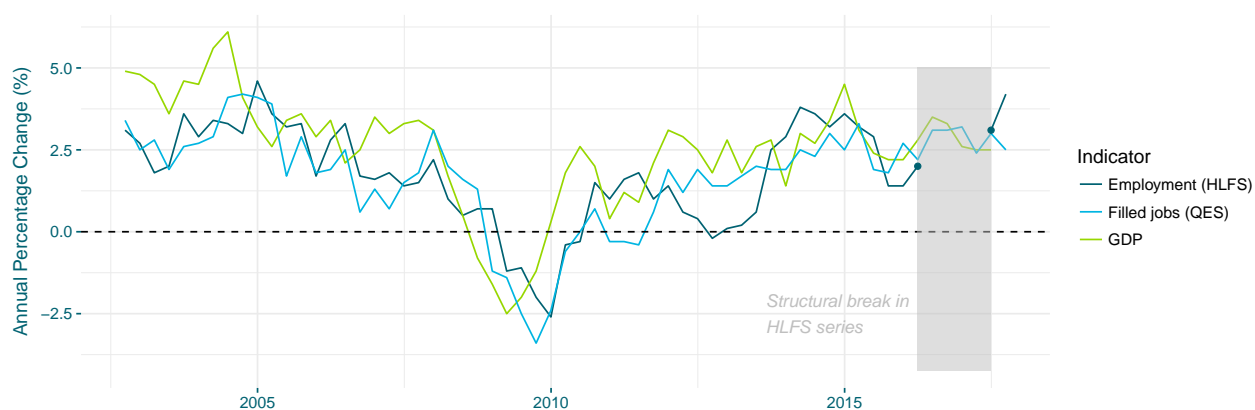
Labour demand remains solid, despite mixed indicators

According to the Household Labour Force Survey (HLFS), employment increased by 56,000 (2.2 per cent) in the September quarter. With the exception of June 2016 (when methodological changes were introduced to the HLFS) this is the largest quarterly increase in the history of the series, far above market expectations of a 0.7-0.8 per cent rise. This growth came after a surprising 0.1 per cent contraction in employment in the June quarter. Statistics New Zealand have noted the volatility of recent quarterly employment changes, saying that it is a reflection of New Zealand's dynamic labour market, but the overall trend is of steadily increasing employment.¹

Other indicators suggest more subdued growth. The Quarterly Employment Survey (QES) recorded a 0.2 per cent increase in filled jobs over the quarter, the lowest quarterly growth since June 2015: this follows a 0.9 per cent increase in jobs in the June 2017 quarter. The QES also showed a 0.8 per cent increase in full-time equivalent employment, and a 0.8 increase in paid hours: overall, still a positive picture of growing labour demand, even if it is not as positive as the HLFS.

¹ Statistics New Zealand, Labour Market Statistics: September 2017 quarter - Media Release

Figure 1: Indicators of Labour Demand



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

Employment growth reflects broad-based economic activity

Over the year to September, employment grew by 102,700 (4.2 per cent), with the bulk of growth (87,700) coming from full-time employment. Men and women made roughly equal contributions to annual growth. Half the annual employment growth was for those in the 25-39 age group, although this was driven by population increases in this age group, rather than a lift in the employment rate.

At an industry level, the main drivers of employment growth were professional and administrative services (up 34,400), construction (up 22,300), and public administration and safety (up 12,500). At a regional level, the main drivers of employment growth were Auckland (up 46,800), Waikato (up 21,600), Bay of Plenty (up 13,300), and Wellington (up 10,000). Annual employment growth was broad-based: no industry recorded substantial declines in employment over the year, and the only regions to see falling employment were Manawatu-Wanganui, Gisborne/Hawke's Bay and Southland, with all falls being minor.

Businesses report increasing difficulties in finding labour

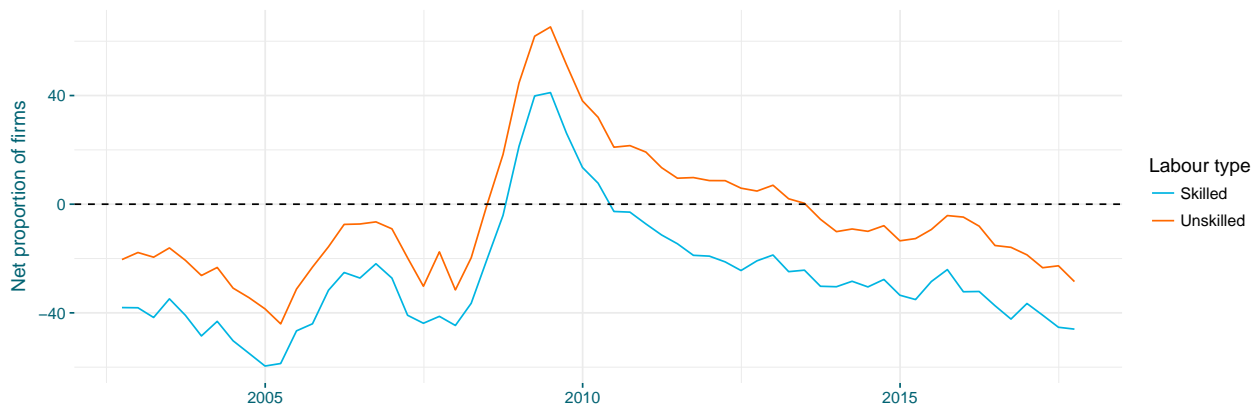
An indicator of labour market tightness is the difficulties firms are reporting in finding the right employees. According to NZIER's Quarterly Survey of Business Opinion (QSBO) a net 46 per cent of businesses had trouble finding skilled labour (a slight improvement on the net 47 per cent reported last quarter, but well above the long-run average of 18 per cent).² These difficulties were reported across all industries, but were especially acute in manufacturing: a net 57 per cent of firms in that sector has trouble finding skilled labour, up from 48 per cent last quarter.

Reflecting the lack of spare capacity in the labour market, unskilled labour became harder to find over the quarter: a net 27 per cent of firms found it difficult to find unskilled labour, up from 23

²NZIER, Quarterly Survey of Business Opinion, September 2017

per cent last quarter.

Figure 2: Ease of finding labour

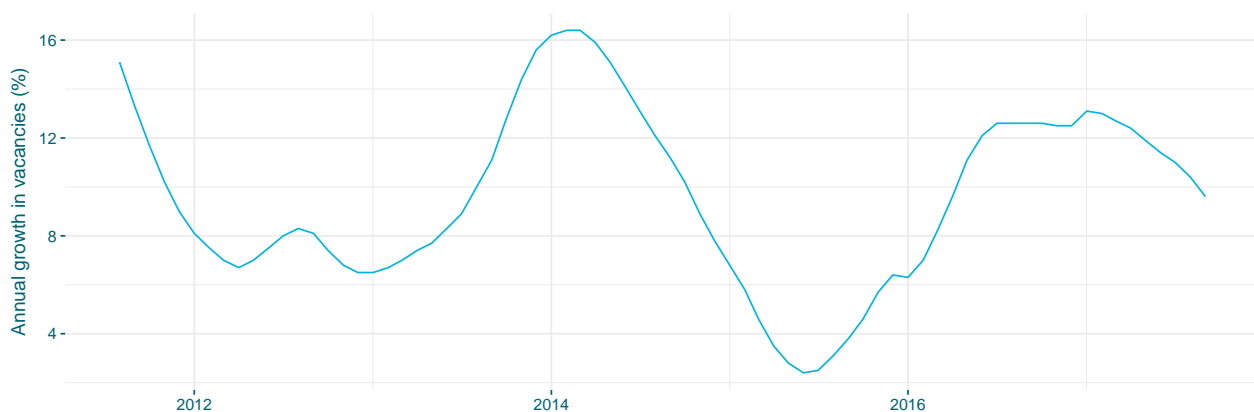


Source: NZIER Quarterly Survey of Business Opinion

Other indicators are also suggesting that finding staff as a key issue for New Zealand firms. ANZ's business survey reported that lack of skilled employees has been the number one biggest concern of small businesses for the past 18 months.³ Concern is particularly pronounced in the construction sector.

Despite these difficulties, both MBIE and ANZ have been showing a slowing in job ad growth. Annual growth in job ads recorded by ANZ has been easing for the past nine months, driven by a slow-down in the main centres of Auckland and Canterbury.⁴ A similar picture emerges from MBIE's vacancy index, with slowing growth particularly in the larger centres.

Figure 3: Annual growth in all vacancies



Source: MBIE Jobs Online

³ANZ Business Micro Scope, September quarter 2017

⁴ANZ New Zealand Job Ads, October 2017

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

We expect employment growth to remain solid in the short-term, with an overall employment increase of 152,000 over the next three years. The largest contribution to this employment growth will come from construction and utilities (up 32,400), business services (up 23,700) and health and education (up 34,000).⁵

Employment growth will be concentrated among highly skilled occupations, particularly business and systems analysts and programmers, ICT managers, and legal professionals. Growth among mid-skilled occupations will be lower, but concentrated among construction-related trades: glaziers, plasterers and tilers, plumbers and electricians. Among lower-skilled occupations, the highest demand will be for construction and mining labourers, prison and security workers, and office and practice managers.

⁵MBIE, Short-term Employment Forecast 2017-2020. These forecasts show the likely path of employment growth assuming economic growth in line with Treasury's Economic and Fiscal Update

2. Labour Supply

■ 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 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 0.6 per cent (24,000 people) over the September quarter. Growth in the labour force outpaced this population growth, pushing the labour force participation rate from 70.1 to 71.1 per cent. This is the highest labour force participation rate on record, and is also elevated by international standards: New Zealand has the fourth highest labour force participation rate for 15-64 year olds, and the second highest for 15 years and older.

Over the longer-term, New Zealand's labour force growth has been driven by two main trends. Firstly, a long-term rise in the participation rate of older workers has dampened some of the downward pressure on labour force participation expected from an ageing population. Secondly, from 2013 there has been a sharp increase in the population of 25-34 year olds, which, combined with the high participation rate of that age group to generate an equally sharp increase in the labour force.

The first of these trends emerged in the late-90s. While the fundamental drivers of increased participation among older workers are observed internationally (increasing life expectancy encouraging longer working lives, shifts away from physical labour), older worker participation is particularly high due to the absence of policies that depress participation (such as mandatory retirement and means-testing for superannuation).⁶

Net migration to decline

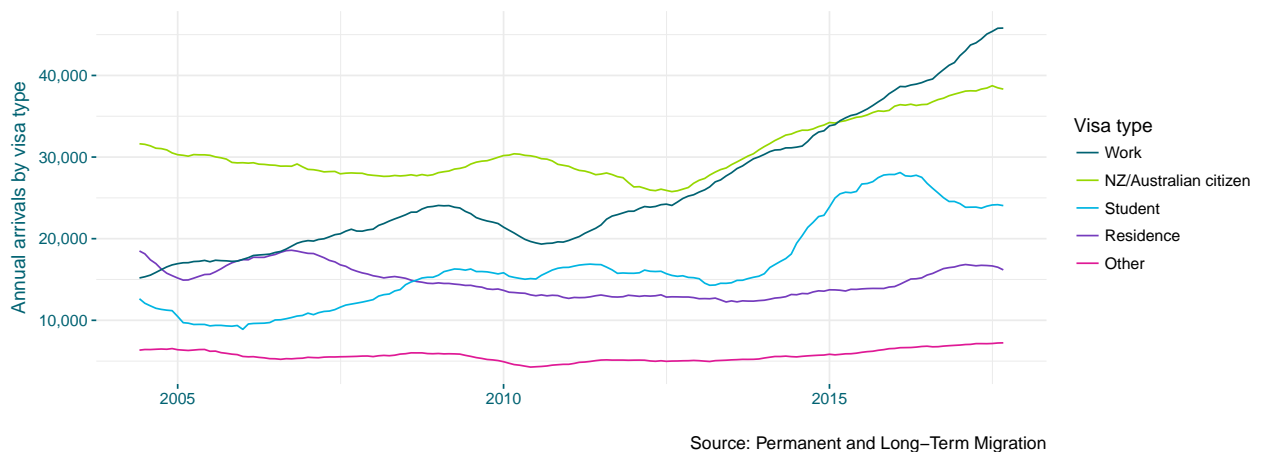
In the year ending September 2017, net permanent and long-term migration was 71,000, consisting of 131,600 arrivals and 60,600 departures.

⁶New Zealand Treasury Working Paper 05/09, The effect of New Zealand Superannuation eligibility age on the labour force participation of older workers, November 2005

Three broad trends have underpinned recent arrival growth. Firstly, since 2011, work visa arrivals have more than doubled. Secondly, since 2013, the number of New Zealand citizens returning to New Zealand has been increasing. Finally, through 2014 and 2015 there was a sharp increase in student visas, predominately from India, although that has dropped off over the past year, coinciding with tighter entry requirements.

We expect annual net migration to decline by twenty per cent over the next two years to reach 56,700 by September 2019.

Figure 4: Annual migrant arrivals by visa type



3. Labour Market Outcomes

■ SUMMARY

- Spare labour capacity continues to decline, with falling unemployment.
- Youth outcomes remain steady.
- Māori and Pacific Peoples outcomes improve over the year, but gaps remain.
- Wage growth is lifted by pay equity settlement, but remains low given the tight labour market.

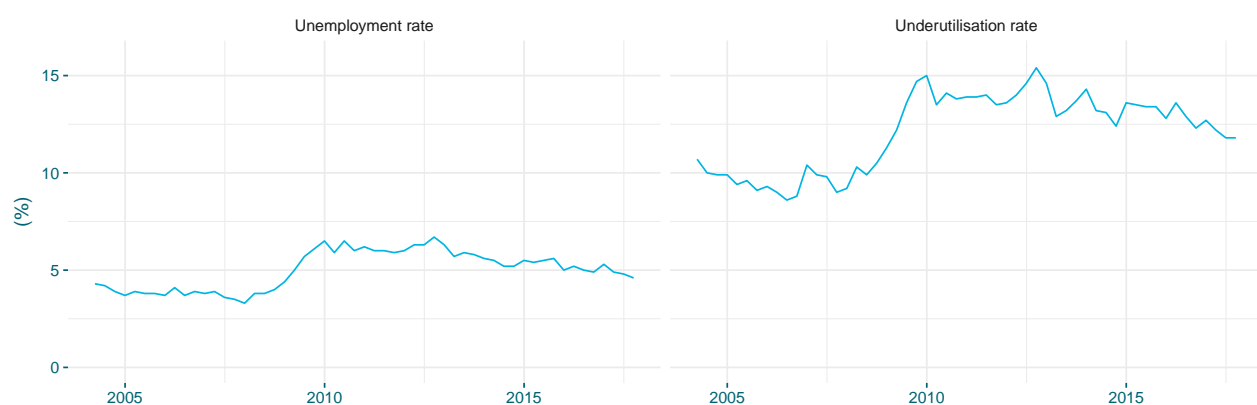
Spare labour capacity continues to decline

The unemployment rate fell 0.2 percentage points over the quarter to 4.6 per cent, the lowest since December 2008. The fall reflects 2,000 fewer unemployed people over the quarter. Since peaking in 2012, the unemployment rate has been steadily trending downwards.

The underutilisation rate⁷ was unchanged over the quarter at 11.8 per cent. This reflects a 5,000 increase in underutilised people over the quarter, driven primarily by an increase in underemployed workers (up 8,500). Underemployed workers are those who work part-time (fewer than 30 hours) who are both available for and seeking more hours. Alongside this rise, there was a 3,600 fall in 'available potential jobseekers', defined as people who are available to work, and would like a paid job but aren't actively seeking one (this category includes those who have become discouraged from seeking work); as well as a 2,000 rise in 'unavailable jobseekers' (people looking for work who aren't yet available to start, and therefore are not counted as unemployed).

⁷The 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

Youth outcomes remain steady

The overall NEET rate for 15-24 year olds was unchanged over the quarter at 11.2 per cent. This reflects a fall in NEET rates for 15-19 year olds (down 1.5 percentage points to 7.2 per cent), offset by a rise in NEET rates for 20-24 year olds (up 1.5 percentage points to 14.8 per cent). Despite recent volatility, the trend for NEET rates has been relatively stable after 2012.

The NEET rate for Māori has been generally declining since 2009, and in September hit its lowest level since the series began in 2007. At 17.3 per cent, this is still substantially higher than the NEET rate for New Zealand Europeans (8.4 per cent). At a regional level, overall NEET rates are highest in Gisborne/Hawke's Bay (17.0 per cent), Northland (14.9 per cent) and Bay of Plenty (13.7 per cent), and lowest in Tasman/Nelson/Marlborough/West Coast (9.1 per cent) and Canterbury (9.3 per cent).

Māori and Pacific Peoples improve over the year, but gaps still remain

Over the past year, outcomes for Māori have improved. An additional 21,900 Māori were employed over the year, lifting the Māori employment rate to 63.5 per cent, the highest since the December 2008 quarter. There has been a general upwards trend in the Māori employment rate since 2013. That same upwards trend can be observed for Pacific Peoples, who were most negatively affected by the recession, although their employment rate remained effectively unchanged in the past year (down from 60.0 per cent to 59.9 per cent).

The employment rate for Asians, which was comparable to that of Māori and Pacific Peoples around 2008 has now reached New Zealand European levels, after steadily increasing since 2010. Over the past year, the Asian employment rate increased from 66.1 per cent to 68.4 per cent.

Over the year, the unemployment rate fell for every major ethnic group. The Māori unemployment rate in particular fell under 10 per cent for the first time since December 2008,

reaching 9.9 per cent. This is still significantly higher than the unemployment rate for New Zealand Europeans, which is 3.5 per cent.

Figure 6: Employment rates by ethnicity

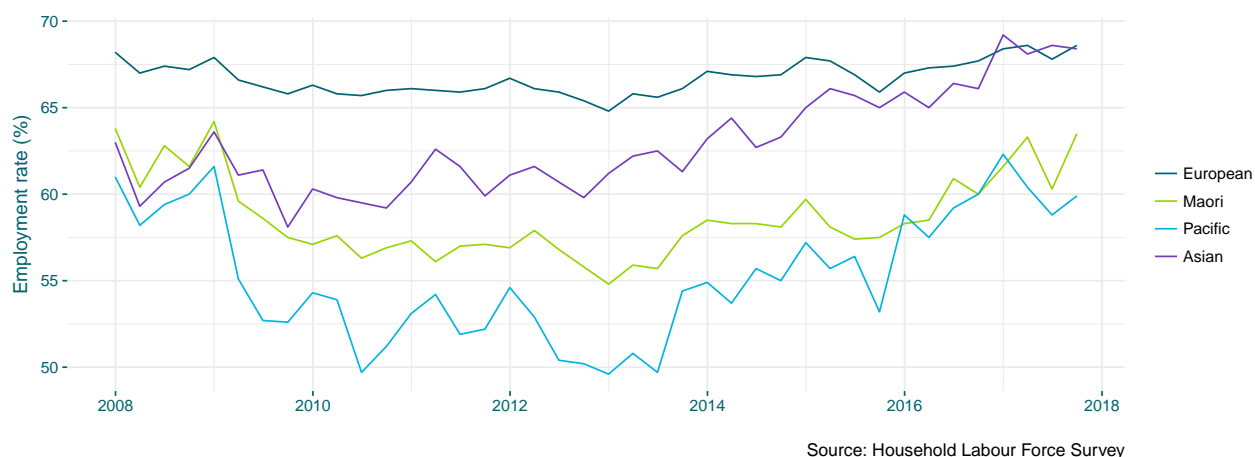
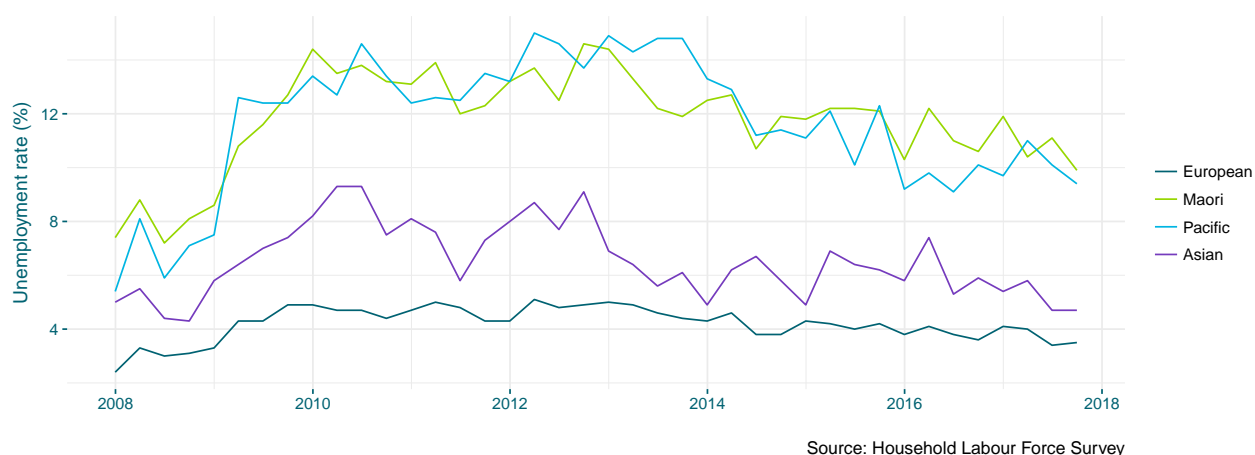


Figure 7: Unemployment rates by ethnicity

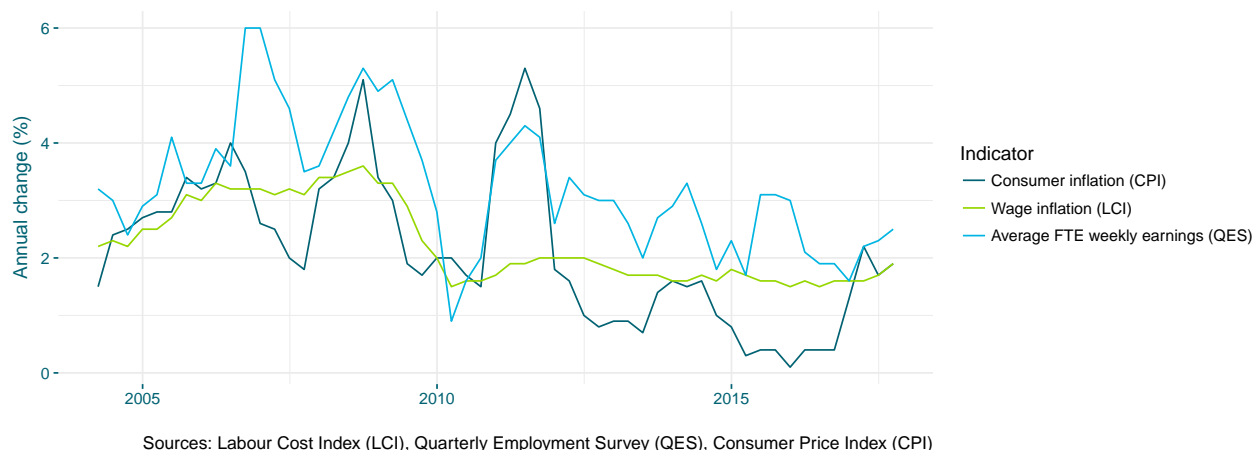


Pay equity settlement drives wage growth

The Care and Support Workers (Pay Equity) Settlement Act came into effect on 1 July 2017, mandating an increase in wages for workers in aged and disability residential care, and home and community support services. The impact can be clearly seen in this quarter's wage data. Average ordinary time weekly wages for those employed in residential care or other social assistance services rose by nearly \$40 this quarter, to reach \$669.23. Pay increases for care workers flowed through to the overall results, with LCI salary and wage rates (including overtime) rising to 1.9 per

cent, the largest annual increase since September 2012, and average ordinary time hourly earnings up 2.2 per cent over the year.

Figure 8: Indicators of wage growth



Setting aside the one-off effect of the pay equity settlement, we have yet to see the tight labour market have an impact on wage growth. If wages that were affected by the settlement had remained constant in the September quarter, annual wage inflation would have been 1.6 per cent, rather than 1.9 per cent, roughly the same rate we have observed since 2010. New Zealand is in line with other advanced countries on this front, with tightening labour market conditions not leading to a strong pick-up in wage growth.⁸ While low rate of consumer price inflation over the past five years has ensured that real wages have been rising despite low nominal growth, the CPI has been picking up in recent quarters as housing and food costs rise.

Workers are pessimistic about the chances of pay increases. According to the Westpac McDermott Miller Index, the proportion of workers who expect to be earning more in paid work over the next year has been declining since 2010/2011. This is in line with evidence recently cited by the Reserve Bank of New Zealand. The global financial crisis has had a long-term scarring effect, reducing employees' expectations of wage increases, and lowering businesses' willingness to offer substantial wage increases.⁹

⁸ Reserve Bank of New Zealand, Monetary Policy Statement, August 2017

⁹ Reserve Bank of New Zealand, Monetary Policy Statement, May 2017

