



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

Quarterly Labour Market Report

August 2018





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Ministry of Business, Innovation and Employment (MBIE)

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ISSN 2253-5721

August 2018

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New Zealand's Labour Market

- The June quarter saw a steady labour market, with labour demand remaining robust enough to absorb increasing supply, although indicators point to a potential future softening.
- Service industries are the main drivers of employment growth, with construction employment levelling out. However we still expect construction employment to rise over the medium-term.
- The employment rates for women and Māori are both the highest on record.
- Labour supply is still growing strongly on the back of migration-led population growth and record participation rates.
- Slight increases in the unemployment and underutilisation rates show that spare labour capacity still remains, but businesses are increasingly reporting difficulties finding labour.
- Wage inflation remains low despite pay settlements with carer and support workers and overall labour market tightness.

1. Labour Demand

■ SUMMARY

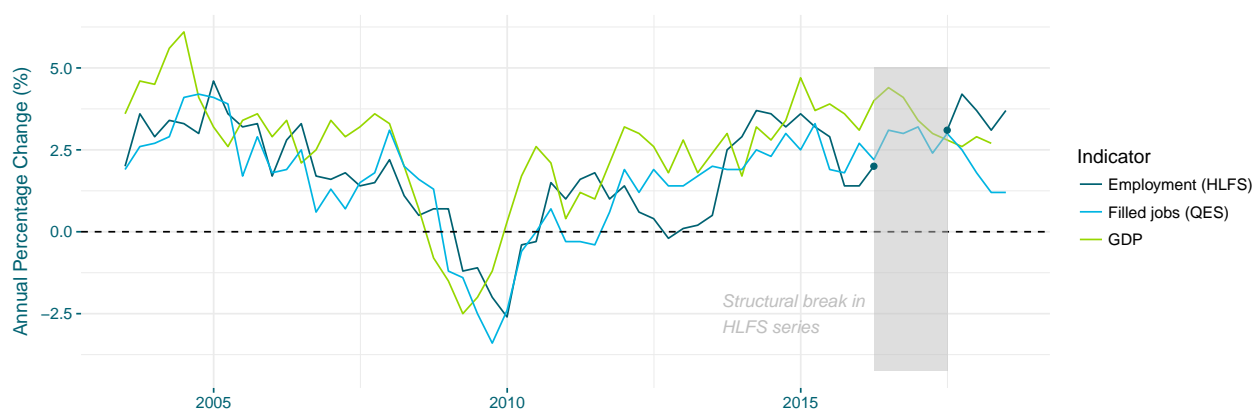
- Employment has kept pace with population growth, and the employment rate remains near a record high.
- Service industries have been the main drivers of employment growth, with construction employment stabilising.
- Job advertising is beginning to soften, and employers are reporting declining confidence and increasing skill shortages. This suggests we may begin to see weaker employment growth in the short-term.
- MBIE expects labour demand to remain strong for the rest of 2018 but weaken in 2019, with growth strongest for highly-skilled occupations.

The proportion of the population in employment remains near record levels

Employment rose by 0.5 per cent in the June 2018 quarter, a rate that kept pace with working-age population growth (also up 0.5 per cent). As such, New Zealand's employment rate (the proportion of the working-age population who are employed) remained unchanged at 67.7 per cent. This is near the record high employment rate of 67.8 per cent seen in the September 2017 quarter. Only two other countries (Iceland and Switzerland) employ a greater percentage of their working-age population.

The employment rates for women and Māori are both the highest on record. The employment rate for women rose to 62.8 per cent, the highest since records began in 1986. Over the year, the employment rate for Māori rose to 64.6 per cent (up from 60.3 per cent last year), also the highest since records began in 2007.

Figure 1: Indicators of Labour Demand



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

Services sectors are driving employment growth

Over the year to June 2018, employment grew by 93,000 (3.7 per cent).

At an industry level, growth was driven by both private and public services: health care and social assistance (up 26,200 or 10.5 per cent); professional, scientific, technical, administrative and support services (up 23,800 or 7.5 per cent); and public administration and safety (up 12,200 or 8.8 per cent). All other industries showed much lower, or negative growth: there were 6,100 fewer people employed in wholesale trade than last June; and 4,300 fewer employed in arts, recreation and other services.

After exhibiting strong growth since 2013, employment in the construction industry is slowing down. Construction employment grew by 6,600 (2.8 per cent) over the year. (In the previous June year, growth in this sector was 17,900, or 8.2 per cent, by way of comparison). Employment in Auckland's construction sector fell by 3,000 (3.7 per cent) over the year, down from growth of 6,700 (9.0 per cent) in the previous year. These results are backed up by the Quarterly Employment Survey, which reported a 1.4 per cent drop in New Zealand construction jobs over the year to June, equivalent to 2,500 fewer filled jobs.

These results are consistent with declining hiring intentions and increased pessimism in the construction sector. ANZ Job Ads reported a fall of 4.4 per cent in job advertising from the construction sector in the June quarter, while MBIE Jobs Online showed weak growth of 0.2 per cent.¹ Over the year to June, Jobs Online reported a drop in job advertisements from Auckland's construction industry.²

¹ANZ New Zealand Job Ads, July 2018

²MBIE Jobs Online, June 2018

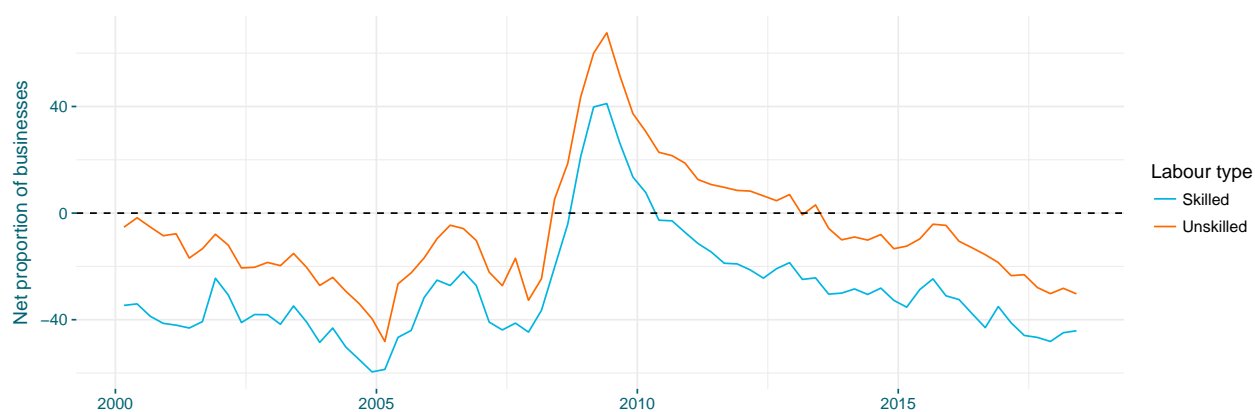
Employment growth was strongest in the North and South of the country

Key regions driving employment growth were Otago, Northland, Bay of Plenty, Waikato and Auckland, with employment growth outpacing working-age population growth in most regions. Otago, in particular, saw annual employment growth (up 12,000) outpace population growth (up 5,000), leading to a regional employment rate of 69.6 per cent. Wellington was the only region to show a fall in employment over the year, with 1,300 fewer people employed despite a 8,100 increase in population. Annual growth in online job advertisements was led by Bay of Plenty with 21.4 per cent, followed by Otago-Southland with 19.5 per cent.

Skill shortages remain acute

Reported labour shortages remain acute in the June quarter. According to NZIER's Quarterly Survey of Business Opinion (QSBO), a net 44 per cent of businesses had trouble finding skilled labour and 30 per cent of businesses had trouble finding unskilled labour.³ These difficulties have been steadily increasing since 2009.

Figure 2: Ease of finding labour



Source: NZIER Quarterly Survey of Business Opinion

Hiring intentions fall as pessimism rises

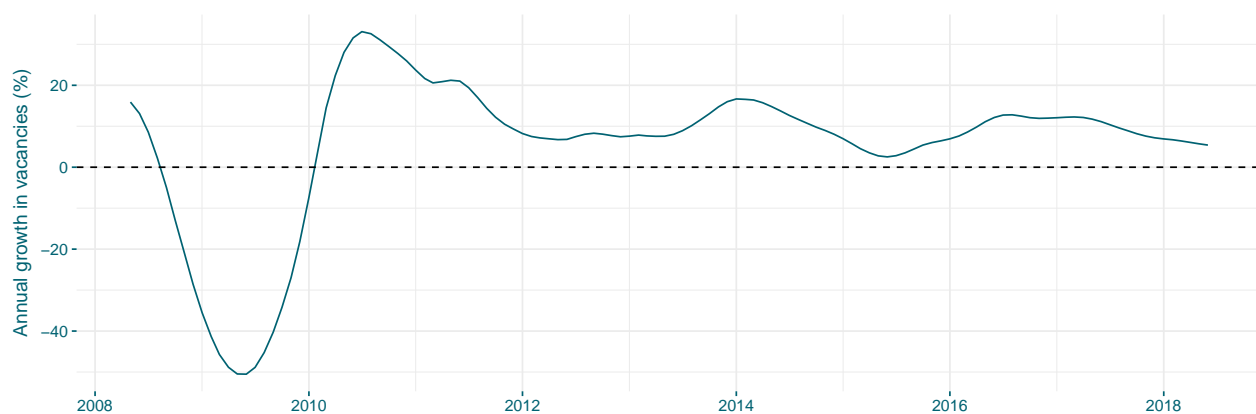
The QSBO showed a further drop in business confidence, with a net 19 per cent of businesses expecting economic conditions to deteriorate in the second half of 2018. ANZ's Business Outlook, which is more heavily weighted towards the primary sector, showed a similar picture, with a net 45 per cent of businesses pessimistic about the year ahead.⁴ New Zealand's position in the OECD Business Confidence Index has dropped to 32nd from 15th a year ago.

³NZIER, Quarterly Survey of Business Opinion, June 2018

⁴ANZ Business Outlook, July 2018

The fall in confidence is seen in reduced hiring intentions. Both ANZ and MBIE report softening growth in job advertising, particularly in construction and manufacturing, in recent quarters. In both Auckland and Canterbury ANZ showed annual declines in job advertisements, while MBIE showed slower growth than in other regions. Between them, Auckland and Canterbury comprise 60 per cent of total job advertisements.

Figure 3: Annual growth in all vacancies



Source: MBIE Jobs Online

Employment growth forecast to weaken over the next 2 years

Employment growth was strong in the 2018 March year but is forecast to weaken in the 2019 and 2020 March years, with an overall employment increase of 152,000 over the three years. The largest contribution to this employment growth will come from health and education (up 34,000), business services (up 23,700) and construction and utilities (up 32,400).⁵

Employment growth will be concentrated among highly skilled occupations, particularly business and system 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 (February 2018). These forecasts show the likely path of employment growth aligned with Treasury's 2017 half-year Economic and Fiscal Update

2. Labour Supply

■ SUMMARY

- Labour supply remains elevated, with both population growth and participation at historic highs.
- Work visa arrivals are a major contributor to high migrant arrivals, as student visas plateau after a recent drop.
- We expect net inward migration to decline over the next two years.

Labour supply continues to expand

New Zealand's working-age population continued its solid growth, rising by 0.5 per cent (20,000 people) in the June quarter. This is the 17th consecutive quarter in which population growth was at 0.5 per cent or higher. The labour force participation rate rose slightly over the quarter (up 0.1 percentage points to 70.9 per cent), which is close to the New Zealand record of 71.1 per cent and is high by international standards.

Two factors underpin New Zealand's high level of labour force growth: high levels of net immigration, and increased participation among older workers (aged 55 and over).⁶

Net migration has begun to slow

After reaching a record high of 72,400 in the July 2017 year, net migration has been tracking downwards. In the year to June 2018 there were 129,500 arrivals (down 1,800 from the previous year) and 64,500 departures (up 5,500 from previous year), resulting in net inward migration of 65,000.

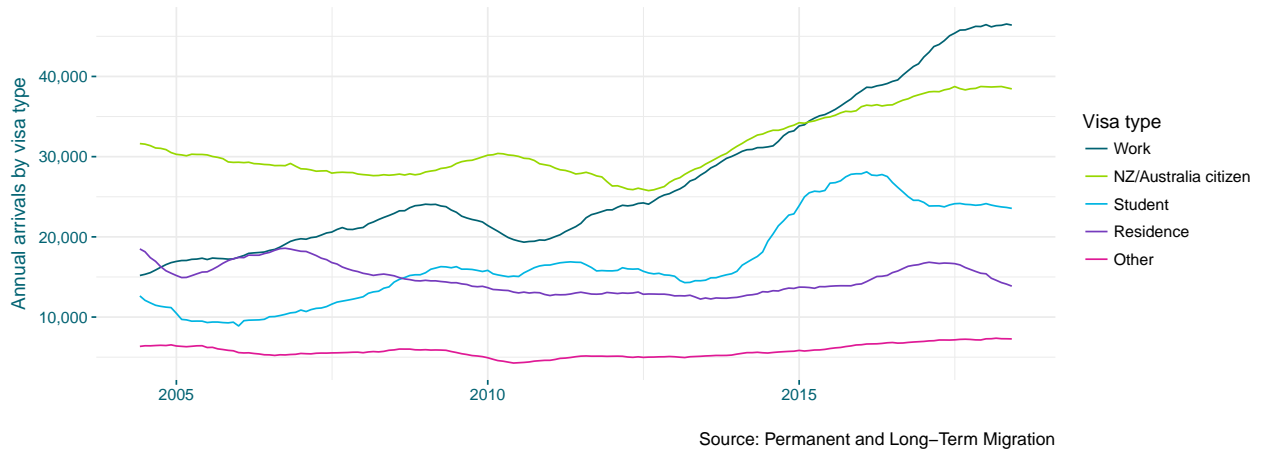
The composition of arrivals has shifted over the past two years. Work visa arrivals are still increasing slowly: 46,400 migrants came on work visas in the June 2018 year, driven by an increase of 17.8 per cent in Essential Skills visa approvals to 40,700 in the June 2018 year. Student visas, which increased rapidly through 2014/2015 due to Indian student arrivals, subsequently dropped and have now plateaued. The recent fall in resident arrivals is consistent with policy changes in 2016 that resulted in a fall in offshore resident visa approvals.

MBIE expects annual net migration to continue to decline, reaching net inward migration of

⁶A detailed breakdown of the structural drivers of New Zealand's participation rate can be found in Culling and Skilling, 'How does New Zealand stack up? A comparison of labour supply across the OECD,' *Reserve Bank of New Zealand Bulletin*, 81(2), April 2018

50,000 in the June 2020 year (15,000 lower than the current level). Rising departures and gradually decreasing arrivals are both forecast to contribute to this decline.⁷

Figure 4: Annual migrant arrivals by visa type



⁷Migration forecasts are driven by emerging trends, which can be associated with newly implemented policies, and New Zealand’s forecast economic and labour market performance relative to other countries, especially Australia. They do not account for the impact of future policy changes

3. Labour Market Outcomes

■ SUMMARY

- Spare labour capacity still remains, but businesses are increasingly reporting difficulties in finding labour.
- Labour market outcomes have improved for most ethnic groups over the year.
- Youth outcomes have improved, with outcomes for males and females converging.
- Wage inflation remains low despite overall labour market tightness.

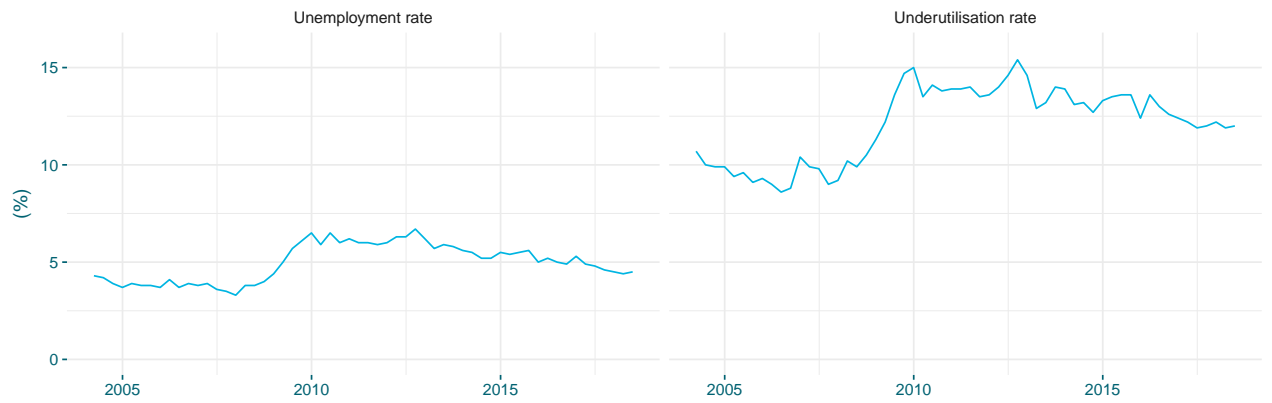
There is still spare labour capacity

The unemployment rate rose 0.1 percentage points over the June quarter to 4.5 per cent, a slight increase following five consecutive quarters of declines. Since peaking in 2012, the unemployment rate has been steadily trending downwards.

The underutilisation rate also rose slightly over the quarter, up 0.1 percentage points to 12.0 per cent.⁸ This increase in the underutilisation rate is due to 8,000 more underutilised men (3,000 more underemployed and 5,000 more unemployed) slightly offset by 3,000 fewer underutilised women. The underutilisation rate for women fell 0.3 percentage points to 14.3 per cent.

⁸The 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

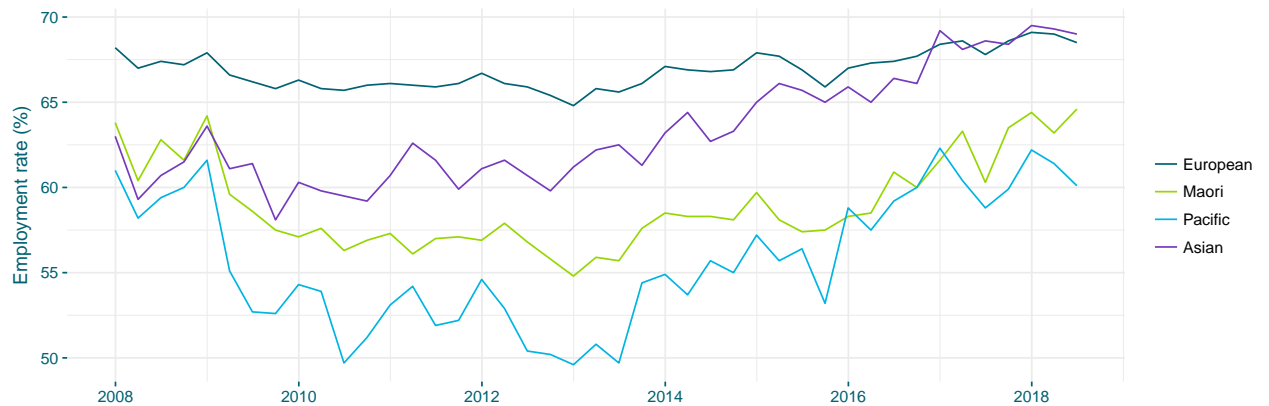


Source: Household Labour Force Survey

Labour market outcomes improving for most ethnic groups

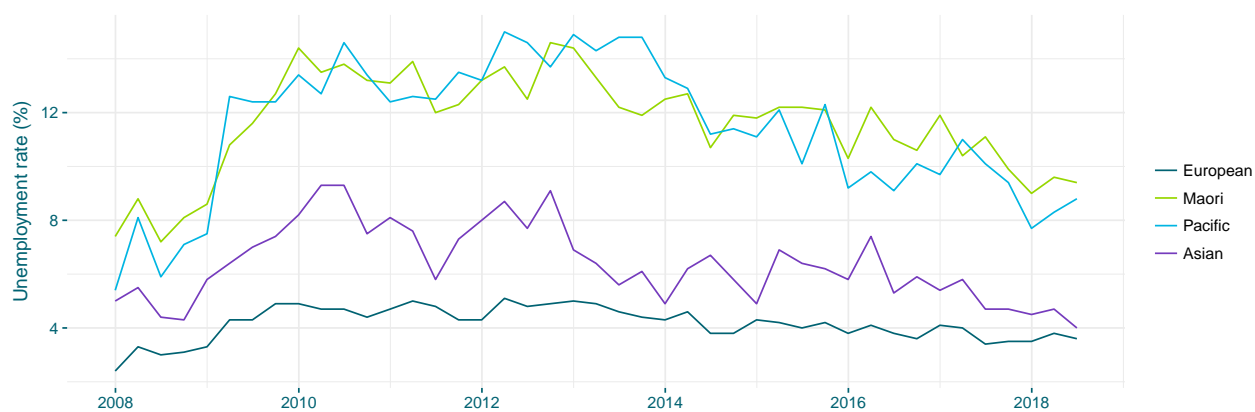
Over the year, unemployment rates have fallen for three of New Zealand's four main ethnic groups. The largest fall was for Māori, down 1.7 percentage points to 9.4 per cent, reflecting 3,600 fewer unemployed. The only rise in unemployment rate was for Europeans, up 0.2 percentage points to 3.6 per cent.

Figure 6: Employment rates by ethnicity



Source: Household Labour Force Survey

Figure 7: Unemployment rates by ethnicity



Source: Household Labour Force Survey

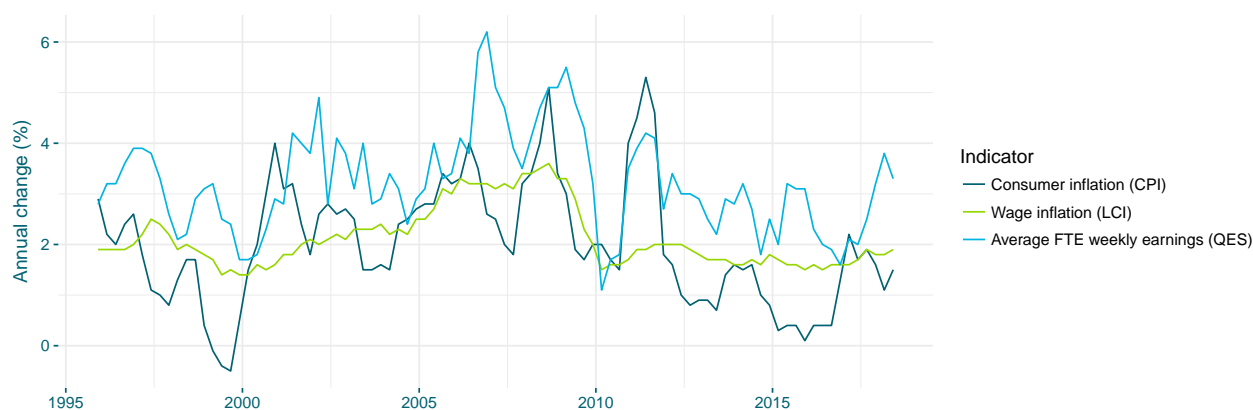
Female and male NEET rates have converged

The seasonally-adjusted rate of people aged 15-24 years not in employment, education or training (NEET) fell 1.5 percentage points to 10.9 per cent in the June 2018 quarter, and is down 0.3 percentage points over the year. The biggest driver of this drop in the NEET rate was a decrease of 8,000 people in the 15-19 age group not in the labour force and not in education. Despite some recent volatility, the overall NEET rate has been relatively stable since 2012.

From the start of the data series in 2004, female NEET rates have been consistently higher than male NEET rates. From 2016 onwards this gender gap narrowed, and has now largely disappeared. The NEET rate for women is now 11.3 per cent, the lowest since records began. In June 2018 there were 37,000 young women who were NEET, compared with 36,000 NEET men.

The NEET rate in the Bay of Plenty fell to 5.9 per cent, making it the second lowest region behind Otago (a statistically significant drop of 7.8 percentage points). This drop in NEET was largely due to an increase in the number of youth in employment.

Figure 8: Indicators of wage growth



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

Tightening labour market yet to impact on wage inflation

Average ordinary time hourly earnings (a QES measure) reached \$31.00 an hour, an increase of 3.0 per cent over the year. Shifts in QES measures can reflect compositional shifts in the workforce (i.e. people shifting to full-time employment or to higher paying industries).

Wage inflation, as measured by the Labour Cost Index (LCI), remains low despite overall labour market tightness. In the year to June 2018 the LCI rose 1.9 per cent (1.4 per cent in the public sector and 2.1 per cent in the private sector). The Care and Support Worker (Pay Equity) Settlement Act 2017, which came into effect on 1 July 2017 and mandated increased wages for workers in aged and disability residential care, and home and community support workers, remains the major driver of annual wage growth in the private sector. By contrast, pay negotiations for both nurses and teachers were still ongoing, contributing to weaker wage growth in the public sector.

The minimum wage increase of 75 cents to \$16.50 on 1 April 2018 was the main contributor to quarterly wage growth, and was most noticeable in the retail trade, and accommodation and food services industries. Without the minimum wage increase and Pay Equity settlement, the annual wage growth across all sectors would have been 1.5 per cent (0.4 percentage points lower).

