



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

Quarterly Labour Market Report

November 2018





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Ministry of Business, Innovation and Employment (MBIE)

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New Zealand's Labour Market

- The labour market was strong in the September quarter. Labour demand grew faster than supply, leading to a record high employment rate of 68.3 per cent, although indicators point to a potential future softening.
- Spare labour capacity is shrinking. Businesses are reporting difficulties finding labour, and the unemployment rate fell to 3.9 per cent, the lowest since June 2008.
- While there was strong employment growth in some industries, employment fell in Agriculture, Construction, and Manufacturing in part due to low profitability and declining business confidence.
- The gender gap in employment is closing, with the employment rate for women the highest on record and the NEET rate for women the lowest ever.
- Labour supply is still growing on the back of migration-led population growth and record participation rates.
- Wage inflation remains low despite pay settlements with care and support workers, a collective agreement with nurses having been finalised, and a tightening labour market overall.

1. Labour Demand

■ SUMMARY

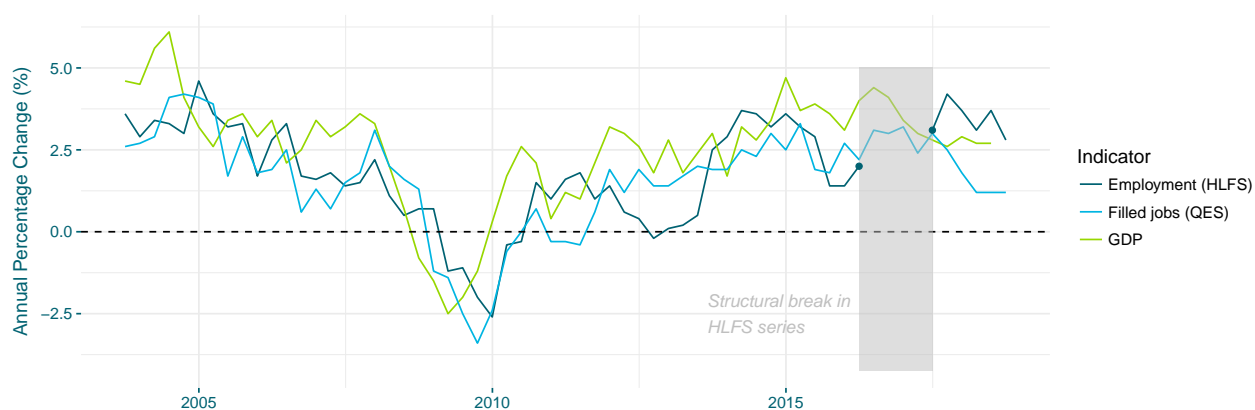
- Employment growth outpaced population growth, leading to record high employment rates, both overall and for women.
- Employment growth was concentrated in a few industries, while there were falls in employment for Agriculture, Construction and Manufacturing.
- Business confidence showed further decline over the quarter, with low profitability in some industries and a slight fall in job advertising. 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 set a new record

Employment rose by 1.1 per cent in the September 2018 quarter, a rate that exceeded working-age population growth (up 0.4 per cent). As such, New Zealand's employment rate (the proportion of the working-age population who are employed) rose to 68.3 per cent, the highest rate since the series began in 1986. Only two other countries, Iceland and Switzerland, employ a greater percentage of their working-age population. The employment rate for women is also the highest on record at 63.6 per cent.

Annually, the total number of people employed rose by 73,200 people (up 2.8 per cent from the previous year). By ethnicity, the largest increase was 40,900 more Asian people employed, while Pacific Peoples and Māori saw more subdued growth, up 7,000 and 3,800 people respectively. Despite this, Māori saw a slight drop in employment rate (down 0.2 per cent), due to strong working-age population growth.

Figure 1: Indicators of labour demand



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

Employment growth was concentrated in a few industries

At the industry level, annual growth was driven by Health Care and Social Assistance (up 27,800 or 10.7 per cent) and Retail Trade and Accommodation (up 20,500 or 5.5 per cent). All other industries showed much lower or negative growth. The largest fall in employment was in the Agriculture, Forestry and Fishing industry, with 8,200 fewer people employed than last September (down 5.1 per cent).

After exhibiting strong growth since 2013, employment in the Construction industry has begun to fall. Annually, Construction employment fell by 3,300 (1.3 per cent), with most of that drop in Auckland (down 2,800 people or 3.2 per cent). Construction businesses reported low profitability over the same quarter, despite an improvement in the pipeline of upcoming residential and commercial construction over the coming year.¹ Online job advertising in the construction sector showed a fall of 0.2 per cent in the September quarter, and weak growth of just 0.9 per cent over the year.²

Business confidence remained low in the September quarter. The largest fall in confidence was in the manufacturing sector due to rising costs and weak demand causing downward pressure on prices.¹

Filled jobs saw more subdued growth of 23,500 annually (up 1.2 per cent).³ The three main industries contributing to filled job growth were: Professional, Scientific, Technical, Administrative and Support Services (up 9,000 or 3.3 per cent), Wholesale Trade (up 7,300 or 6.6 per cent) and Education and Training (up 7,100 or 4.6 per cent).

¹NZIER, Quarterly Survey of Business Opinion, September 2018

²MBIE Jobs Online, September 2018

³The number of filled jobs (Quarterly Employment Survey) is different to employment (Household Labour Force Survey); filled jobs is a count of jobs while employment is a count of people. The two surveys also have different coverage. The QES is a survey of employers that excludes self-employed people, the Agriculture industry, unpaid family workers and New Zealand Defence Force, while the HLFS is a survey of households.

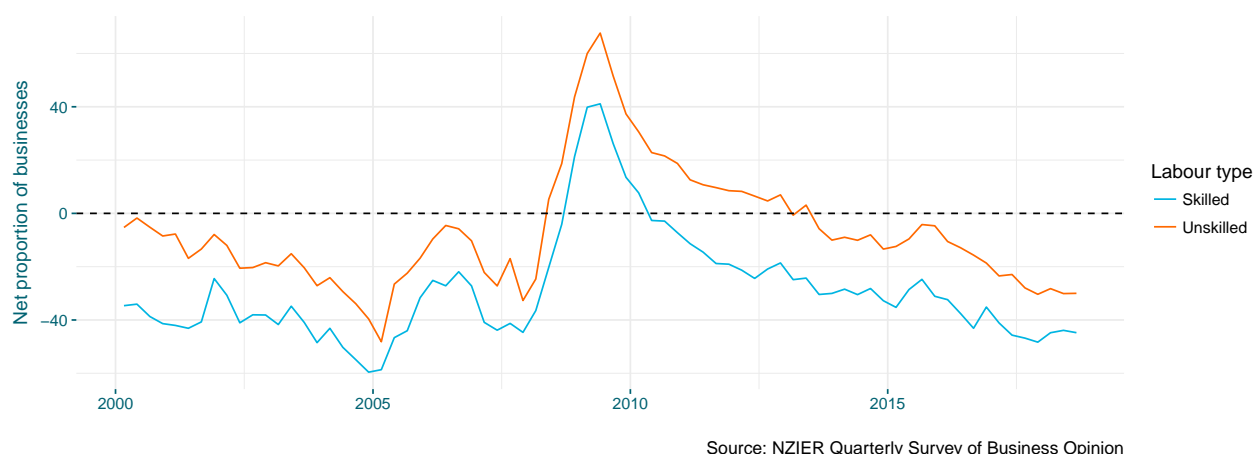
Employment growth was stronger in rural areas

The key regions driving employment growth were Auckland, Waikato, Otago, Gisborne / Hawke's Bay and Taranaki, with employment growth outpacing working-age population growth in most regions. Taranaki, in particular, saw annual employment growth (up 4,300) outpace working-age population growth (up 1,400), leading to a regional employment rate of 69.7 per cent (up from 66.0 per cent last year). Canterbury was the only region to show a fall in employment over the year, with 2,300 fewer people employed despite a 7,200 increase in working-age population. Annual growth in online job advertisements was led by Gisborne / Hawke's Bay with 29.2 per cent, followed by Manawatu-Wanganui/Taranaki with 20.7 per cent and Northland with 18.5 per cent.

Skill shortages remained acute

Reported labour shortages remained acute in the September quarter. According to NZIER's Quarterly Survey of Business Opinion (QSBO), a net 46 per cent of businesses had trouble finding skilled labour and 27 per cent of businesses had trouble finding unskilled labour.⁴ These difficulties have been steadily increasing since 2009.

Figure 2: Ease of finding labour



Hiring intentions remain low as pessimism rises

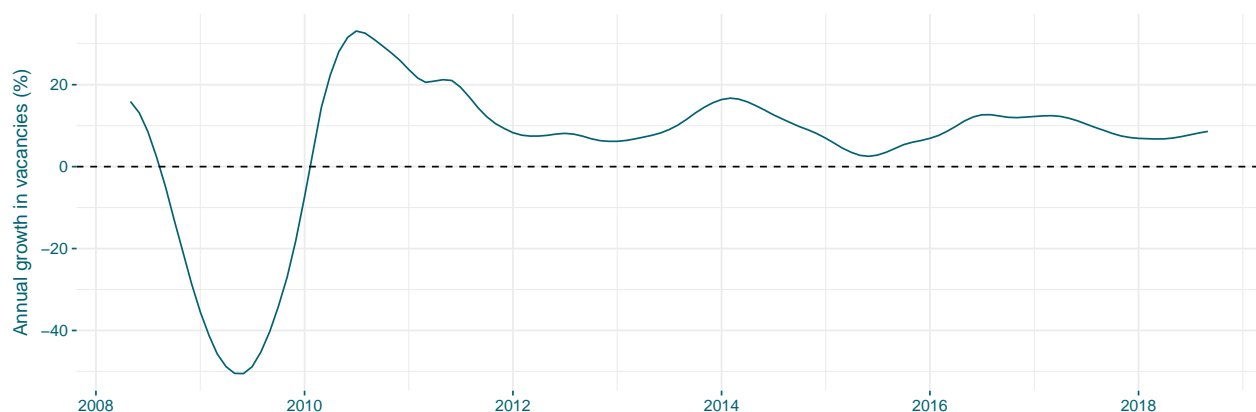
The QSBO showed business confidence has dropped to the lowest level since March 2009, with a net 28 per cent of businesses expecting economic conditions to worsen over the coming months. ANZ's Business Outlook, which is more heavily weighted towards the primary sector, showed a slightly improved picture, with a net 37 per cent of businesses pessimistic about the year ahead

⁴NZIER, Quarterly Survey of Business Opinion, September 2018

(up from 45 per cent the previous quarter).⁵

This low business confidence is seen in subdued hiring intentions. MBIE reported slow growth in job advertising, with the main increases in Health Care and Medical and Primary Industries, while advertising in the Construction and Manufacturing sectors was flat over the quarter. ANZ's Business Outlook reported subdued growth in employment intentions and a sharp drop in construction intentions, both residential and commercial.

Figure 3: Annual growth in all vacancies



Source: MBIE Jobs Online

Employment growth is forecast to weaken over the next two 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).⁶

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.

⁵ANZ Business Outlook, October 2018

⁶MBIE, 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 remained elevated, with participation at a historic high.
- Work visa arrivals were a major contributor to high migrant arrivals.
- MBIE expects net inward migration to decline slowly over the next two years.

Labour supply continued to expand

New Zealand's working-age population growth slowed slightly, rising by 0.4 per cent (15,000 people) in the September quarter. Labour force growth was slightly faster, rising 0.6 per cent (16,000 people), leading to a labour force participation rate of 71.1 per cent (the highest equal on record).

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).⁷ These lead to New Zealand having a high rate of labour force participation by international standards.

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 September 2018 there were 129,000 arrivals (down 2,600 from the previous year) and 66,200 departures (up 5,600 from previous year), resulting in net inward migration of 62,700.

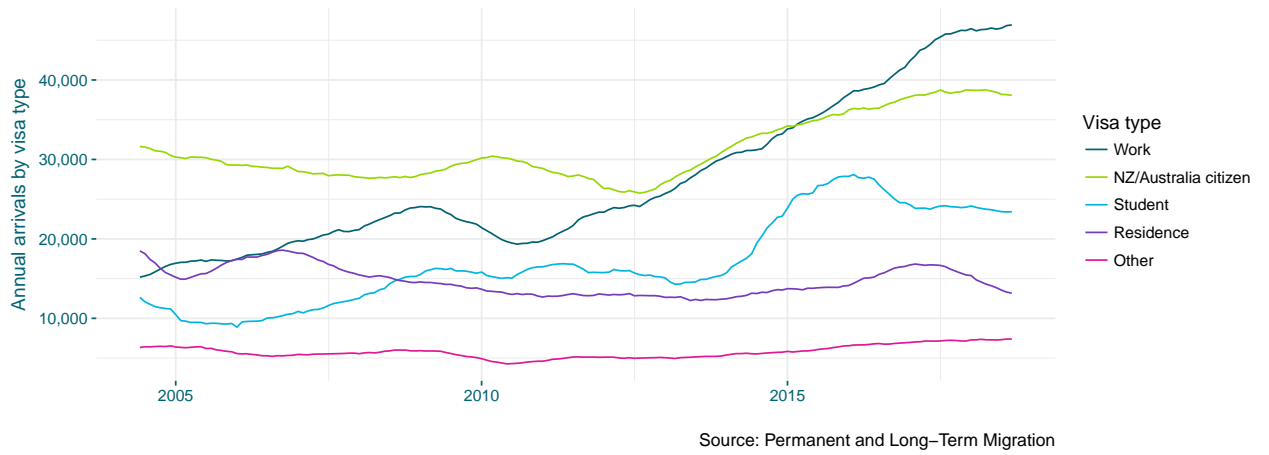
The composition of arrivals has shifted over the past two years. Growth in work visa arrivals has slowed after more than six years of strong growth, with 46,900 migrants arriving on work visas in the September 2018 year. Student visas, which increased rapidly through 2014/2015 due to Indian student arrivals, 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 slowly, reaching net inward migration of 57,000 in the September 2020 year (5,700 lower than the current level). Departures are forecast to rise strongly, while arrivals are forecast to rise slightly.⁸

⁷A 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

⁸Migration forecasts are driven by emerging trends, which can be associated with newly implemented policies, and

Figure 4: Annual migrant arrivals by visa type



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 is shrinking and businesses are increasingly reporting difficulties in finding labour.
- Labour market outcomes have improved for all major 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.

Spare labour capacity is shrinking

The unemployment rate fell to 3.9 per cent in the September quarter, down from a revised 4.4 per cent last quarter. This is the lowest unemployment rate since the June 2008 quarter, when it was 3.8 per cent. Since peaking in 2012, the unemployment rate has been steadily tracking downwards, and has now declined for seven consecutive quarters in the trend series.

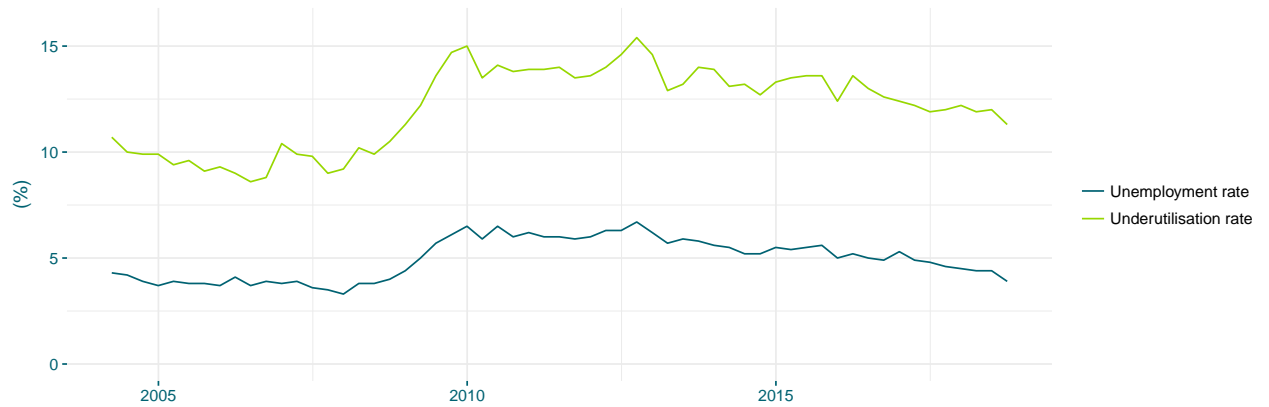
The number of unemployed people fell by 13,000 to 109,000 over the quarter. This mainly reflected 11,000 fewer unemployed youth (15-24 year olds).

The underutilisation rate also fell to 11.3 per cent, down from 12.0 per cent last quarter.⁹ This fall reflects both lower unemployment (down 13,000 people from last quarter) and underemployment (down 6,000 people from last quarter).

The fall in underemployment was driven by 7,000 fewer underemployed men, slightly offset by 1,000 more underemployed women. There is a large gender gap in underutilisation rates: the underutilisation rate for men fell to 9.1 per cent (down from 9.9 per cent last quarter) while the underutilisation rate for women fell to 13.7 per cent (down from 14.2 per cent last quarter). This gap is largely driven by a difference in underemployment, with 32,000 men and 79,000 women underemployed.

⁹The 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

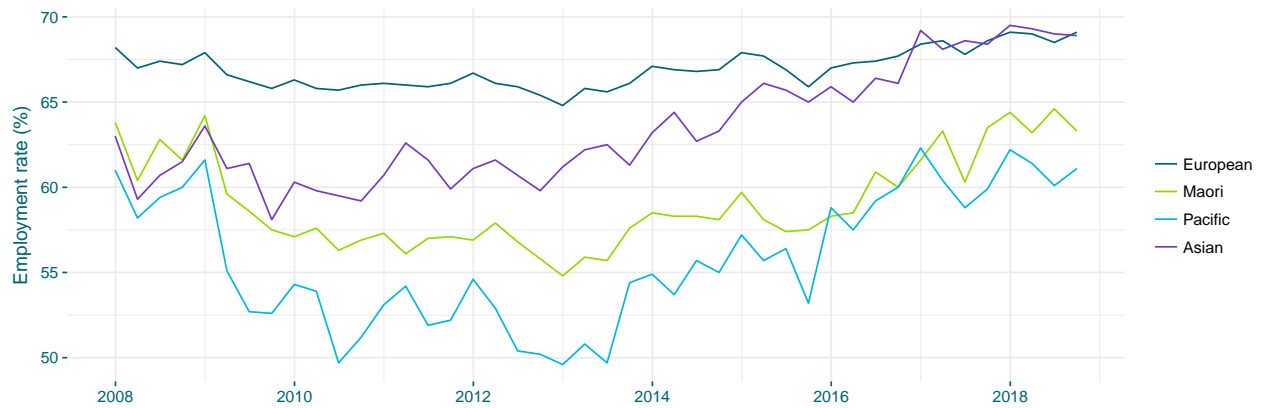


Source: Household Labour Force Survey

Labour market outcomes have improved for all major ethnic groups

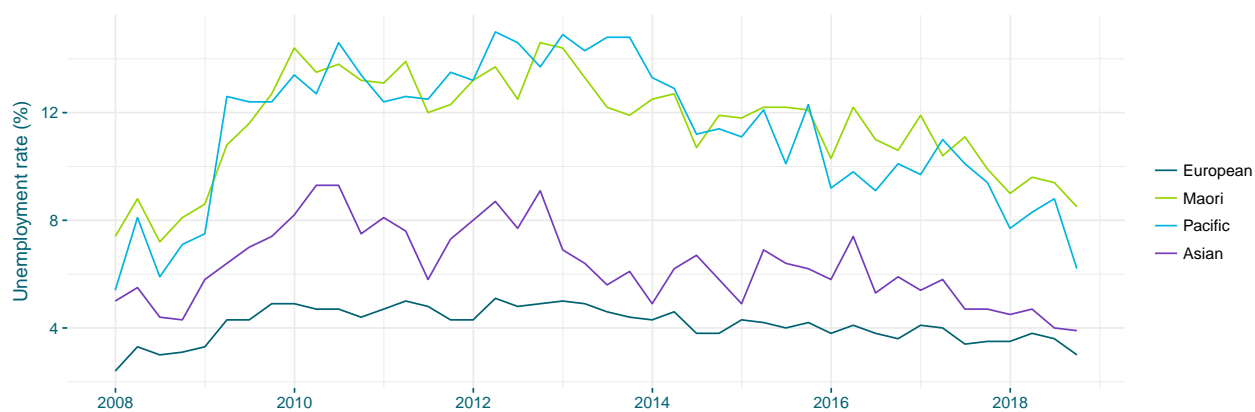
Annually, unemployment rates fell for all of New Zealand’s main ethnic groups. The largest fall was for Pacific Peoples, down to 6.2 per cent (from 9.4 per cent a year ago), reflecting 7,000 more employed and 5,200 fewer unemployed.

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 to 10.1 per cent (down from 10.9 per cent last quarter, and 11.3 per cent a year ago). The biggest driver of this drop in the NEET rate was a decrease of 6,000 people being unemployed and not in education, while there was no change in the number of people 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 has narrowed, and is now the closest on record. In September 2018, the NEET rate for women was 10.1 per cent (33,000 NEET women), the lowest since records began, while the NEET rate for men was 10.0 per cent (35,000 NEET men).

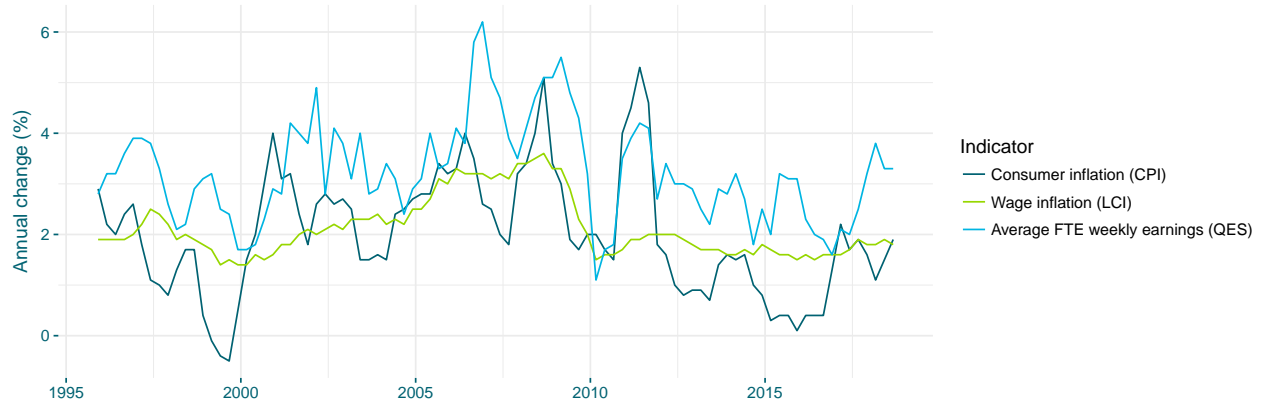
The tightening labour market is yet to impact on wage inflation

Average ordinary time hourly earnings (a QES measure) reached \$31.34 an hour, an increase of 2.9 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). Average weekly paid hours (including overtime) for FTEs also increased 0.3 per cent over the year to 38.82 hours, leading to an increase in average weekly earnings (including overtime) for FTEs increased 3.3 per cent over the year to \$1,212.82.

Wage inflation, as measured by the Labour Cost Index (LCI), remained low despite overall labour market tightness. In the year to September 2018, the LCI rose 1.8 per cent (1.5 per cent in the public sector and 1.9 per cent in the private sector). The Treasury forecasts wage inflation to

strengthen in the next two years.¹⁰

Figure 8: Indicators of wage growth



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

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, remained the main driver of annual wage growth in the private sector. By contrast, pay negotiations for teachers were still ongoing at the end of the quarter. While the nurses' collective agreement was ratified in early August, only a limited proportion had received their wage rises by the middle of August, contributing to weaker wage growth in the public sector.

¹⁰The Treasury, Budget Economic and Fiscal Update 2018, May 2018

