



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

Quarterly Labour Market Report

March 2019





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New Zealand's Labour Market

- The labour market remained fairly tight in the December quarter. Labour supply grew faster than demand, leading to a slight drop in the employment rate to 67.8 per cent.
- While employment growth slowed in recent months, business confidence rose slightly and online job advertisements showed strong annual growth in most regions.
- Spare labour capacity was limited, with businesses reporting difficulties finding labour despite increases in the unemployment and underutilisation rates over the quarter.
- The gender gap is closing, with annual filled job growth driven by women, the unemployment rate for men higher than for women for the first time in eight years, and the NEET rates for men and women converging.
- Labour supply remained elevated on the back of migration-led population growth and a high participation rate.
- Wage inflation remained low despite the minimum wage increase, the nurses' pay settlement and overall labour market tightness.

1. Labour Demand

■ SUMMARY

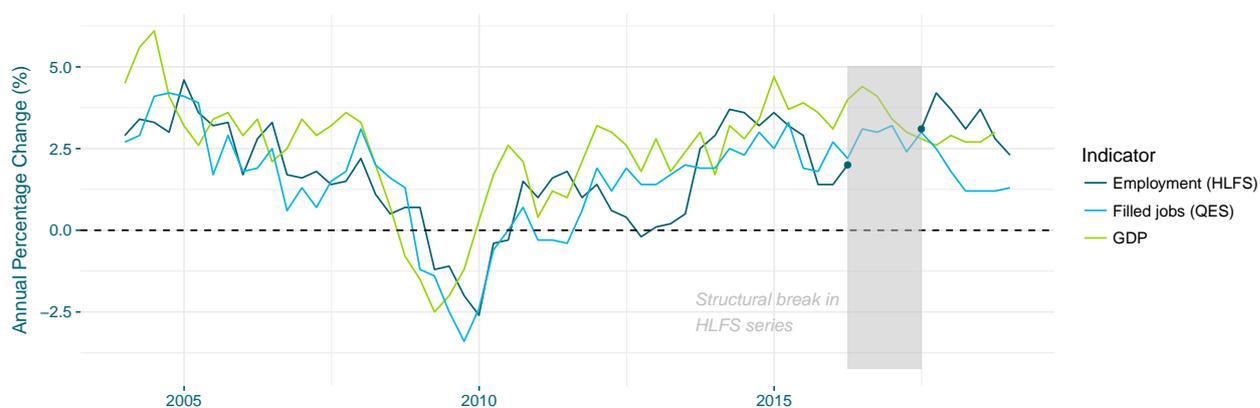
- Employment growth slowed in the December quarter, but the employment rate remained near a record high.
- Annual filled job growth was driven by women and concentrated in the Retail Trade, Education and Training, and Construction industries.
- Profitability remained low but business confidence improved slightly towards the end of 2018. Online job advertising was strong in most regions and skill shortages remained a problem.
- MBIE expects labour demand to weaken over the next two years, with growth remaining strongest for highly-skilled occupations.

Employment growth has slowed in recent months

Employment was relatively flat in the December 2018 quarter, increasing by only 2,000 people (up 0.1 per cent). As such, New Zealand's employment rate (the proportion of the working-age population who are employed) fell to 67.8 per cent, down from a peak of 68.2 per cent last quarter. This was 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.

Annually, the total number of people employed rose by 60,000 people (up 2.3 per cent from the previous year). Almost two thirds of this increase was women, with female employment up 38,000 and male employment up 22,000. Over the year, the employment rate for women rose to 63.0 per cent (up from 62.5 per cent in December 2017, but down from the record of 63.5 per cent last quarter) while the employment rate for men fell to 72.9 per cent (down from 73.3 per cent in December 2017).

Figure 1: Indicators of labour demand



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

Strong annual growth in filled jobs for women

Filled jobs saw annual growth of 25,900 (up 1.3 per cent), with 24,200 more jobs held by women and 1,800 by men.¹ The largest annual increase in filled jobs for women was in the Retail Trade industry (up 9,200 or 7.8 per cent). Over the year there were 8,500 more filled jobs in the Construction industry, with this increase evenly split between males and females (around 4,300 each). The biggest gender shift happened in the Professional, Scientific, Technical, Administrative and Support Services industry with 5,400 more jobs filled by women but 4,600 fewer by men. Over the year there was a fall of 6,900 fewer filled jobs in the Accommodation and Food Services industry (down 4.5 per cent).

After exhibiting strong growth since 2013, employment in the Construction industry has begun to fall, with an annual decrease of 13,100 people (down 5.1 per cent). Construction businesses reported deteriorating profitability despite an improvement in the pipeline of upcoming residential and commercial construction over the coming year, and construction firms reporting easing labour shortages.² Online job advertising in the construction sector showed a fall of 0.3 per cent in the December quarter, and a fall of 0.6 per cent over the year.³

Other industries showing annual employment falls were Agriculture, Forestry and Fishing (down 14,700 people or 8.8 per cent) and Manufacturing (down 11,100 people or 4.4 per cent). Meanwhile Transport, Postal and Warehousing (up 11,900 people or 11.1 per cent), Arts, Recreation and Other Services (up 11,800 people or 8.2 per cent) and Retail Trade and

¹The 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 that only includes usually resident New Zealanders, so can exclude some temporary seasonal labourers.

²NZIER, Quarterly Survey of Business Opinion, December 2018

³MBIE Jobs Online, December 2018

Accommodation (up 10,200 people or 2.6 per cent) showed annual increases in employment.

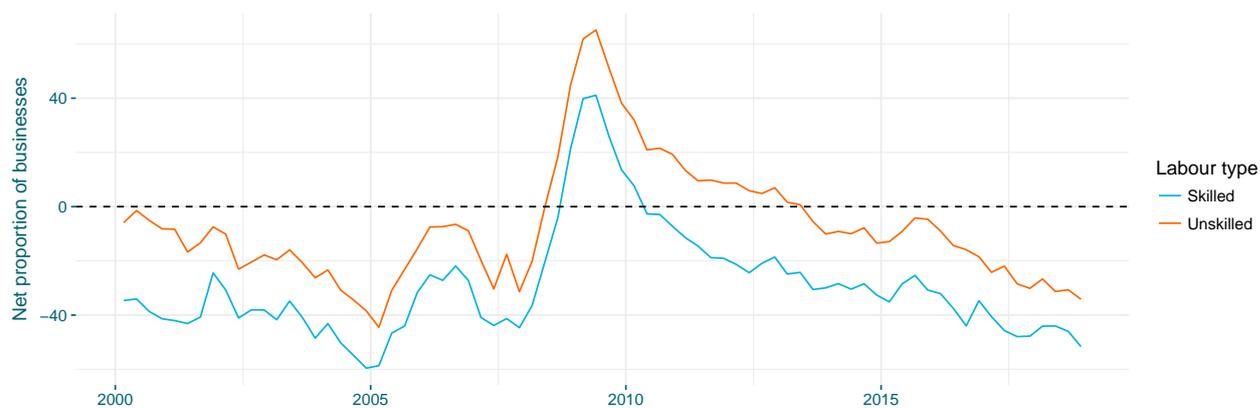
Employment growth was stronger in rural areas

Over the year Auckland, Otago, Waikato, Taranaki and Gisborne / Hawke's Bay showed employment growth, with annual employment growth outpacing working-age population growth in Taranaki and Otago. Employment was static in Southland and fell in all other regions. Annual growth in online job advertisements by region was led by Gisborne / Hawke's Bay with 30.5 per cent, and was strong in all other regions except Auckland with 4.1 per cent and Canterbury with an annual drop of 2.0 per cent.

Skill shortages remained acute

Reported labour shortages remained acute in the December quarter. According to NZIER's Quarterly Survey of Business Opinion (QSBO), a net 53 per cent of businesses reported having trouble finding skilled labour and 35 per cent reported trouble finding unskilled labour.⁴ These reported difficulties have been steadily increasing since 2009. Annual online advertising growth was strongest for unskilled and highly-skilled jobs, while advertising for semi-skilled jobs saw a slight decline. This distribution of job vacancy growth and difficulties finding labour, together with a relative lack of employment growth potentially indicates a growing skill mismatch in the labour force.

Figure 2: Ease of finding labour



Source: NZIER Quarterly Survey of Business Opinion

Hiring intentions remain steady as business confidence rises slightly

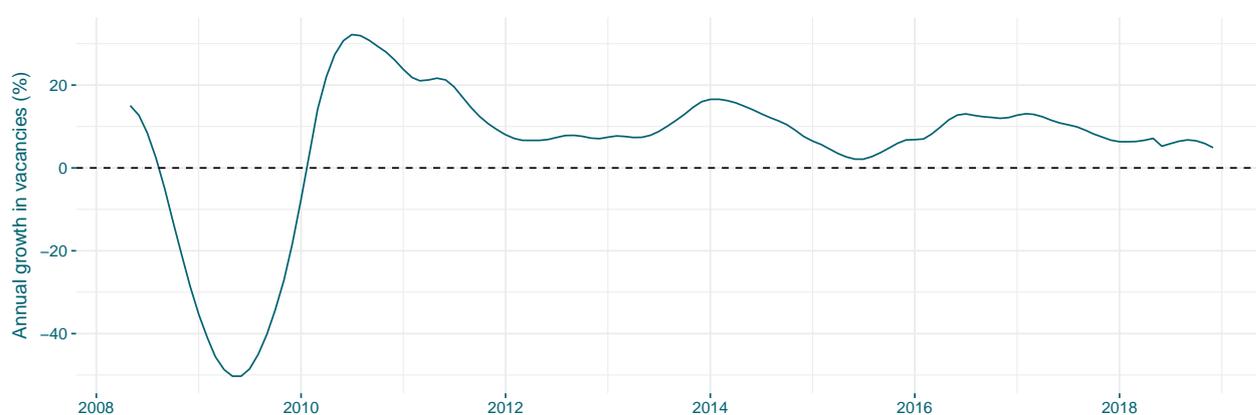
The QSBO showed business confidence improving slightly towards the end of 2018, with a net 18 per cent of businesses expecting economic conditions to worsen over the coming months (less

⁴NZIER, Quarterly Survey of Business Opinion, December 2018

than 28 per cent in the previous quarter). ANZ's Business Outlook, which is more heavily weighted towards the primary sector, also lifted to show a net 24 per cent of businesses pessimistic about the year ahead (up from 37 per cent the previous quarter).⁵

Hiring intentions remained steady and a net 5 per cent of businesses increased headcount over the quarter. Despite demand picking up across a range of sectors including Manufacturing and Construction, weak profitability remains a concern with a net 22 per cent of businesses reporting worsening profitability in the December quarter.⁶ ANZ's Business Outlook reported rising employment intentions and a lift in both residential and commercial construction intentions over the quarter.

Figure 3: Annual growth in all vacancies



Source: MBIE Jobs Online

Employment growth is forecast to weaken over the next two years

Employment growth is forecast to slow in the 2019 and 2020 March years, with an overall employment increase of 100,500 over the two years. The largest contribution to this growth is expected to come from business services (up 22,300), health and education (up 17,600) and construction and utilities (up 12,400).⁷

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 labourers, prison and security workers and office and practice managers.

⁵ANZ Business Outlook, December 2018

⁶NZIER, Quarterly Survey of Business Opinion, December 2018

⁷MBIE, Short-term Employment Forecast 2017-2020 (February 2018)

2. Labour Supply

■ SUMMARY

- Labour supply remained elevated, with participation near a historic high.
- Work visa arrivals continued to grow as overall net migration slowed.
- The change to using administrative data has caused a level shift in net migration numbers.

Labour supply continued to expand

New Zealand's labour force growth slowed slightly, rising by 0.4 per cent (12,000 people) in the December quarter. Working-age population growth was slightly higher, rising 0.6 per cent (25,000 people), leading to a slight drop in the labour force participation rate to 70.9 per cent.

Two factors underpin New Zealand's high level of labour force growth: high levels of net inward migration, and increased participation among older workers (aged 55 and over).⁸ Together these lead to New Zealand having a high rate of labour force participation by international standards. A large proportion of migrants are in the 25-34 year age bracket, so the high level of net migration over the last four years has led to a shift in the age distribution of the labour force.

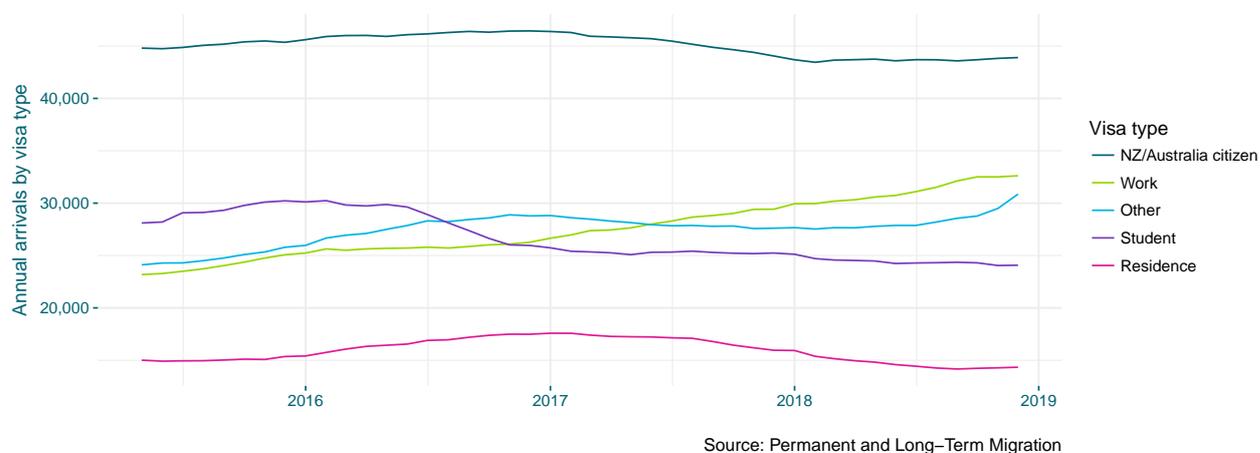
Net migration has been slowing for the last two years

After reaching a record high of 63,900 in the July 2016 year, net inward migration has been tracking downwards. In the year to December 2018 there were 145,800 arrivals (up 3,500 from the previous year) and 97,500 departures (up 7,900 from previous year), resulting in net inward migration of 48,300.

The composition of arrivals has shifted over the past three years. Work visa arrivals have continued to grow, with 32,600 migrants arriving on work visas in the December 2018 year. Annual student visa arrivals have plateaued, and are currently at 24,100 after dropping from 30,200 three years ago.

⁸A 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

Figure 4: Annual migrant arrivals by visa type



Changes to migration measures will have flow-on effects for population estimates

Previously, migrants were identified purely based on intentions stated on their arrival and departure cards. Because intentions can change, Stats NZ began to produce an outcomes-based measure of migration from administrative data⁹ alongside the intentions-based measure. When departure cards were removed in November 2018, migration statistics started being calculated solely from this outcomes-based measure.

The switch to using administrative data has caused increases in the provisional estimates of both migrant arrivals and departures. Because the increase in estimated departures was greater than for arrivals, when combined this has resulted in a 13,000 lower annual net migration estimate.

Migration data is an essential component of population change, and the December 2018 quarter update to the population estimates was the first to use data from the new migration measure. This will have a flow-on effect to labour market statistics, with the HLFs working-age population estimates expected to reflect the new measure from the December 2019 quarter update onwards.

⁹The outcomes-based measure defines migrants by how long they actually stay in or out of New Zealand, rather than how long they intend to stay (as stated on their arrival/departure card). Administrative border-crossing data is used to determine migrant status according to the 12/16 rule (after entering/leaving the individual must remain in/out of New Zealand for 12 of the following 16 months to be recorded as a migrant). This means the final migration estimates are lagged 17 months after the reference period. Stats NZ addresses this lag by using a statistical model to produce provisional estimates for the most recent 17 months.

3. Labour Market Outcomes

■ SUMMARY

- Spare labour capacity was limited with businesses reporting difficulties in finding labour.
- The unemployment rate for men was higher than for women, and the youth NEET rates for males and females have converged over the past few years.
- Wage inflation remained low despite overall labour market tightness.

Spare labour capacity rose slightly

The unemployment rate rose to 4.3 per cent in the December quarter, up from a revised 4.0 per cent last quarter. Excluding last quarter, this is the lowest unemployment rate since the September 2008 quarter, when it was 4.0 per cent. Since peaking in 2012, the unemployment rate has been steadily tracking downwards. The unemployment rate rebounding from the 4.0 per cent reached last quarter possibly indicates that we are near maximum sustainable employment.¹⁰

In the December 2018 quarter the unemployment rate for men rose to 4.4 per cent, while for women it rose to 4.2 per cent. This was the first time since the June 2010 quarter that the unemployment rate was lower for women than for men.

The underutilisation rate also rose to 12.1 per cent, up from 11.4 per cent last quarter.¹¹ This increase reflected both higher unemployment (up 10,000 people) and underemployment (up 8,000 people).

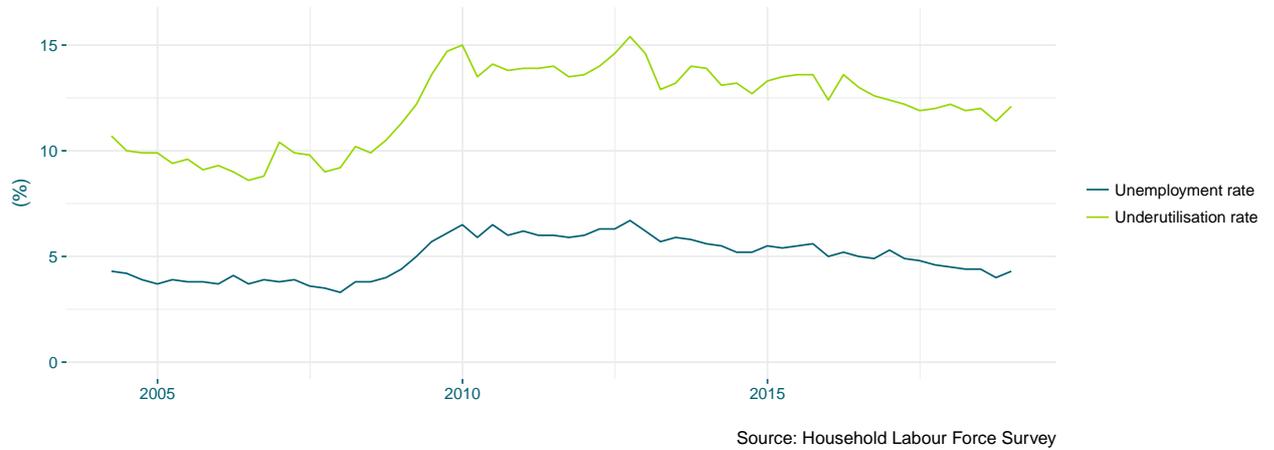
The underutilisation rate for men rose to 10.0 per cent (up from an adjusted 9.2 per cent) while for women it rose to 14.5 per cent (up from 13.7 per cent). This gender gap is largely due to a difference in underemployment, with 38,000 men and 81,000 women underemployed.

For men this quarterly increase in underutilisation was driven by more unemployed (up 8,000 people) and underemployed (up 6,000 people), while for women the increases were spread evenly across unemployed (up 2,000 people), underemployed (up 3,000 people), available potential jobseekers (up 4,500 people) and unavailable jobseekers (up 3,000 people).

¹⁰Reserve Bank of New Zealand, The remit for the Monetary Policy Committee, February 2019

¹¹The 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



Long-term trends are positive for all major ethnic groups

After peaking in 2012, unemployment rates for all of New Zealand’s main ethnic groups have been trending downwards. However a gap still remains between the labour market outcomes for Māori and Pacific Peoples and other ethnicities.

Figure 6: Unemployment rates by ethnicity

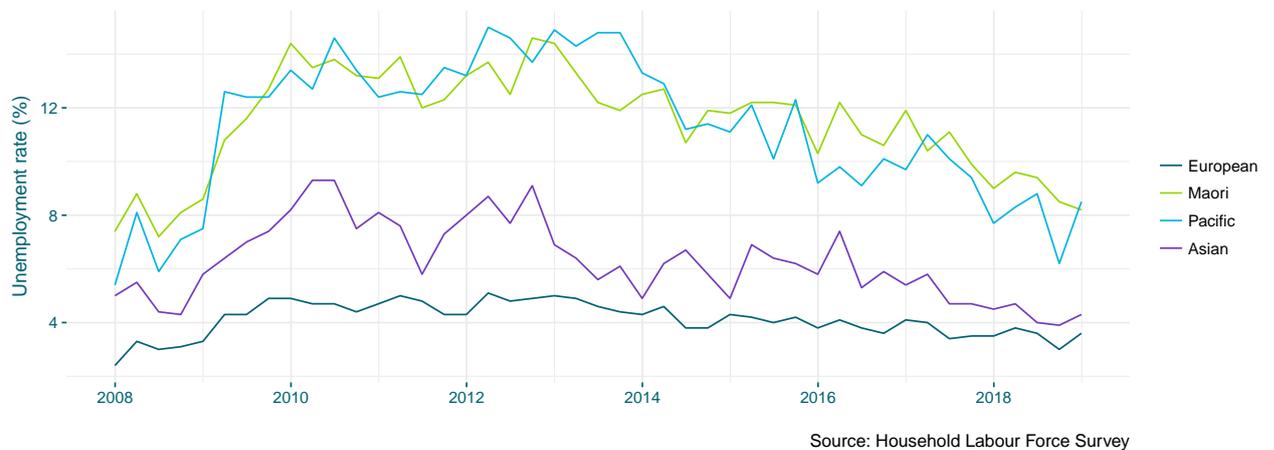
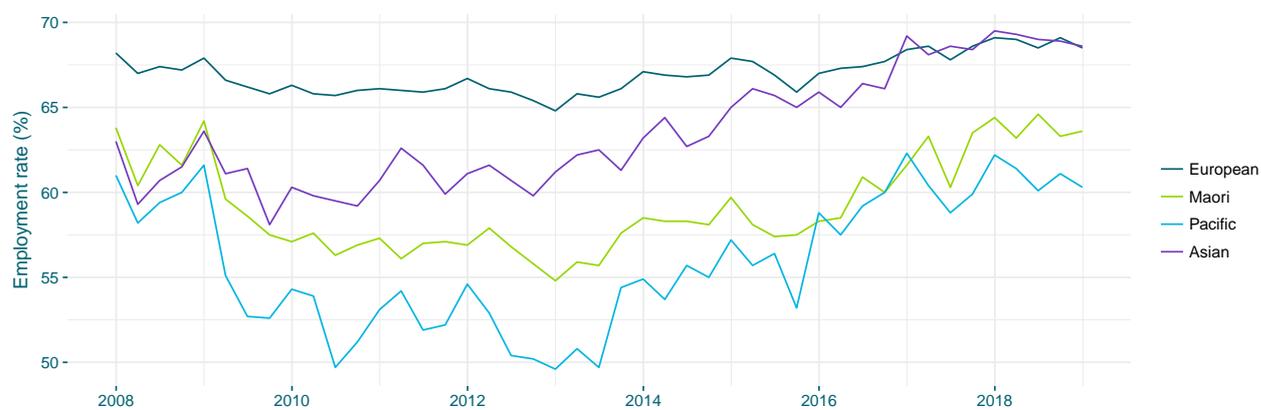


Figure 7: Employment rates by ethnicity



Source: Household Labour Force Survey

Female and male NEET rates have converged

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 was the closest on record in the September 2018 quarter, with the NEET rate for women the lowest since records began at 10.4 per cent (34,000 NEET women), while the NEET rate for men was 10.1 per cent (35,000 NEET men).

Work-ready beneficiaries up over the year

Over the year to December 2018, the number of main benefit recipients increased to 299,300 (up 9,600 people or 3.3 per cent). Small reductions in Sole Parent Support and Supported Living Payment numbers were more than offset by the increase in Jobseeker Support (up 11,000 people or 8.9 per cent). Benefit numbers as a proportion of the working-age population increased slightly over the year.¹²

The tight labour market is yet to impact on wage inflation

Average ordinary time hourly earnings (a QES measure) reached \$31.63 an hour, an increase of 3.1 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 decreased 0.2 per cent over the year to 38.67 hours. These combined to create an overall increase in average weekly earnings (including overtime) for FTEs of 2.9 per cent over the year to \$1,225.71.

¹²Ministry of Social Development, Benefit Fact Sheets, December 2018 quarter

Wage inflation, as measured by the Labour Cost Index (LCI), remained low despite overall labour market tightness. In the year to December 2018, the LCI rose 1.9 per cent (1.7 per cent in the public sector and 2.0 per cent in the private sector). By comparison the Consumer Price Index (CPI) also rose 1.9 per cent over the year, leading to flat real wage inflation. Declines in union density and high levels of underemployment are possibly responsible for low levels of real wage inflation in recent years. The Treasury forecasts wage inflation to strengthen in the next two years.¹³

Figure 8: Indicators of wage growth



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

The main driver of annual wage growth in the private sector was the Retail industry with an increase of 2.7 per cent, due partly to the minimum wage increase in April 2018. Public sector wage rates were influenced by the nurses' pay settlement, which initially came into effect in August 2018 with the remaining two-thirds of the settlement in the December quarter. By contrast, pay negotiations for teachers were still ongoing at the end of the quarter, shown by annual wage growth of just 0.7 per cent in the Education and Training industry.

¹³The Treasury, Half Year Economic and Fiscal Update 2018, December 2018

