



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

Short-term Employment Forecasts: 2017–2020

May 2017



Ministry of Business, Innovation and Employment (MBIE)

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ISSN 2324-0594

May 2017

New Zealand Government

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Labour demand weakens as economic growth eases in 2020

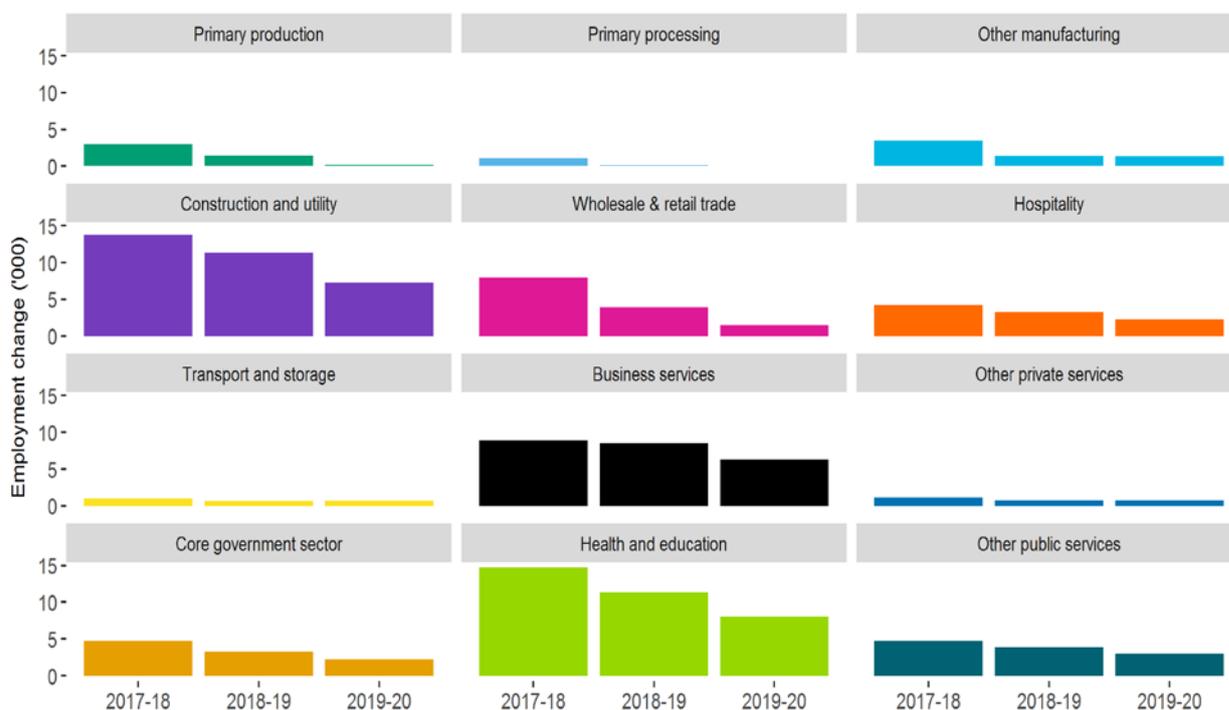
The *Short-term Employment Forecast: 2017-20* presents employment forecasts¹ for 2017 to 2020 (March years). The forecasts will inform the Ministry's advice relating to immigration priorities, and priority setting for tertiary education and industry training over the next 2-3 years.

The overall employment is forecast to grow by 2.8 per cent (or 68,600) in 2018, by 2.0 per cent (or 50,000) in 2019 and by 1.3 per cent (or 33,400) in 2020 — 152,000 (or 2.0 per cent on average) more people employed over the next three years.

Employment will grow at different levels across the sectors and regions. Construction and utility services (up 32,400) will make the largest contribution to overall employment growth, followed by the business services (up 23,700) and health and education (up 34,000) sectors. This reflects strong construction activity, an ongoing employment shift towards the service sector and net inward migration gains.

At a regional level, the highest percentage employment growth will be in the Auckland and Waikato regions in the North Island, and Marlborough and Tasman regions in the South Island.

Figure 1: The construction sector will continue to have strong employment growth



Source: MBIE, *Short-term employment model*

¹ All forecasts in this report are annual averages for 31 March years. Consequently, annual changes are not point-to-point changes, which would compare a March quarter result with previous March quarter result. The year ending March forecasts are consistent with the Treasury's GDP growth forecasts reported for the same period.

Construction and business services sectors continue to boost employment

Employment will increase in all broad sectors in the three years to 2020. The largest increases will be in the construction and utilities, business services, and health and education sectors. These sectors will have sizeable growth of over 20,000 by 2020, and will grow faster than the national average.

Over the forecast period, employment growth in the construction and utilities sector will increase demand for professionals, technicians and trade workers, and labourers across the country. Growth in construction activities will support employment in regions experiencing growth in residential investment, particularly in the Auckland region.

The business services sector will see moderation of employment growth rate, but will still outpace the overall employment growth rate over the forecast period. The sector will account for 16 per cent (or 23,700) of total employment growth. Strong growth in the sector will drive demand for highly skilled workers in urban regions like Auckland and Wellington.

The health and education sector will contribute 34,000 workers to overall employment growth between 2017 and 2020. Increasing population and rising demand for childcare and care for the ageing population will support growth in this sector— particularly in urban regions, including Waikato and the Bay of Plenty.

Employment grows in all regions — some rural regions to grow at a faster rate

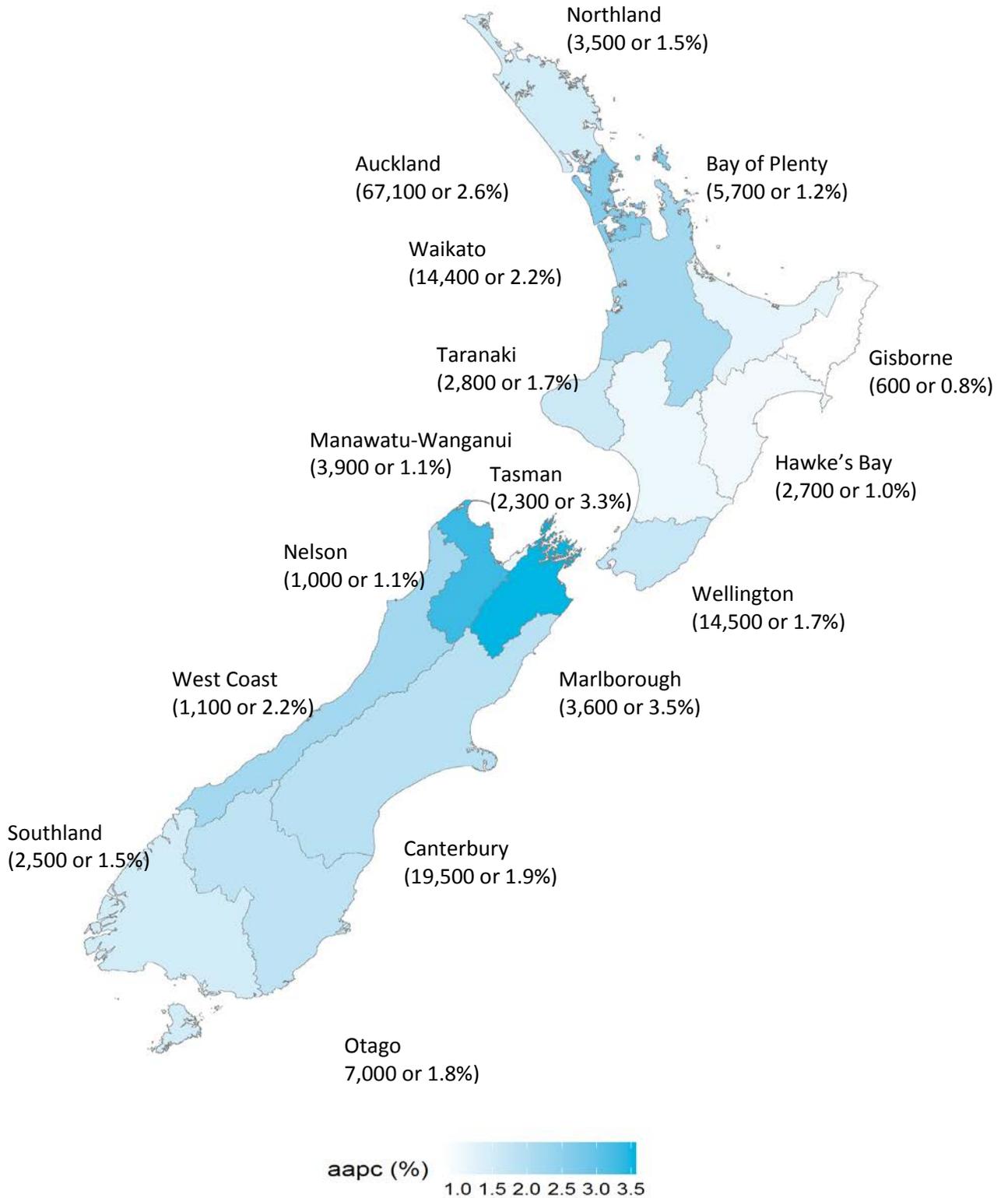
North Island growth is highest in the Auckland, Waikato and Wellington regions and there is solid growth across the South Island. Employment growth rates will be fastest in Tasman and Marlborough regions, both adding nearly 6,000 more people to the projected increase in overall employment by 2020.

Due to its size, Auckland will make up about 43 per cent (or 67,100 workers) of total employment growth, spread across a number of industries. The region is also likely to make up more than half of the national employment growth in construction-related activities over the forecast period. Employment in the region will grow by 2.6 per cent (or 22,400 workers each year) on average each year to 2020.

Construction activity will continue to drive employment growth in Canterbury over the next two years. Employment growth is expected to remain strong as infrastructure work in earthquake affected (Northern Canterbury) areas continue. Over the forecast period, employment in the region will grow by 1.9 per cent (or 6,500 workers) on average per year, adding 19,500 workers to overall employment in the short-term.

Overall, five out of the 16 regions (2 in the North Island and 3 in the South island) will grow faster than the national average of 2.0 per cent per year over the forecast period.

Figure 2: Tasman (up 3.3 per cent) and Marlborough (up 3.5 per cent) regions to grow fastest over the next three years



Source: MBIE, Short-term employment model

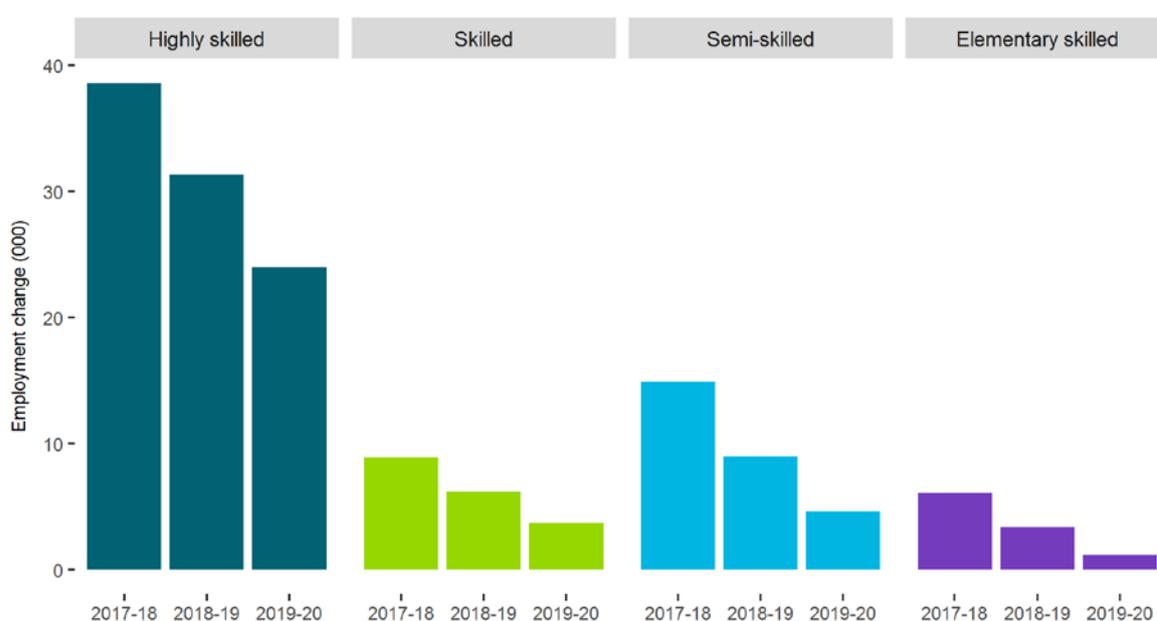
Note: aapc= annual average percentage change

Demand will be strongest for highly skilled workers

Highly skilled occupations (mostly managers and professionals) will grow faster (2.9 per cent) than overall employment growth (2.0 per cent) on average between 2017 and 2020. By 2020, the demand for highly skilled workers will see nearly 94,000 more people in those occupations. Within this group, demand will be strongest for business and system analysts and programmers, ICT managers and legal professionals.

We forecast the demand for skilled workers to increase by 2.1 per cent per year on average over the next three years. By 2020, employment in skilled occupation will increase by 18,900 workers. The rate of employment growth for skilled (mainly trades) workers is forecast to peak in 2018 at 3.0 per cent and then decline to 1.2 per cent in 2020. Of the demand for skilled workers, growth will be fastest for glaziers, plasterers and tilers; plumbers and electricians.

Figure 3: 93,900 more high-skilled occupations by 2020



Source: MBIE, Short-term employment model

With 39,300 opportunities for lower-skilled workers in the short-term

Opportunities for lower-skilled workers will account for nearly 30 per cent of the overall employment growth over the forecast period. Within this group, demand will be strongest for construction and mining labourers, prison and security officers, and office and practice managers.

Steady economic growth over the next two years then weakens

The global economic outlook is positive

In its latest World Economic Outlook (April 2017)², the International Monetary Fund (IMF) projects a better global outlook for 2017-18, supported by recovery in commodity prices and

² International Monetary Fund: World Economic Outlook Update, April 2017, [World Economic Outlook, April 2017: Gaining Momentum?](#)

more robust global economic activity. The IMF projects global growth to increase from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF also projects strong growth in New Zealand’s main trading partners, including China and the United States.

Domestic demand keeps NZ growth prospects solid over the next two years

The New Zealand economy slowed in the final quarter of 2016, but expectations of robust global demand and stronger domestic activity will support a positive outlook for the New Zealand economy. Treasury’s 2016 Half-Year Economic and Fiscal Update (HYEFU) forecast a steady 3.5 per cent economic growth in 2017 and 2018, before falling to 2.4 per cent in 2020 (Table 1). Consensus Forecasts also expect above three per cent growth over the next two years before moderating to 2.5 per cent by 2020.³

Table 1: GDP, employment and productivity forecasts (2018 to 2020 March years)

| Annual average percentage change | 2017 (%) | 2018 (%) | 2019 (%) | 2020 (%) |
|---|--------------------|-----------------|-----------------|-----------------|
| GDP growth | 3.5 % | 3.5% | 3.1% | 2.4% |
| Labour Productivity (MBIE) | -0.8% ⁴ | 0.7% | 1.1% | 1.1% |
| Employment growth (MBIE) | 4.3% | 2.8% | 2.0% | 1.3% |

Source: Treasury Half Year Economic and Fiscal Update – December 2016; MBIE, Short-term employment model

Note: 1) The forecasts and estimates over the next three years presented above should be regarded as indicative.

2) All changes presented in the table are annual average percentage change (aacpc).

The services and construction sectors will remain key drivers of growth in the short-term, with activity broadening beyond main urban centres to rural regions as global dairy prices recover. Strong net migration will boost household spending and construction activities. With robust employment demand, consumers and businesses will remain confident⁵, further increasing spending and economic activities. Continued growth in tourism is also likely to drive economic growth in the short-term.

The average annual employment growth rate of 2.0 per cent over the 2017-20 period is below the pre-recession average growth rate of 2.8 per cent over the 2003-07 period. This, in part, is due to higher average labour productivity over the forecast period compared to the pre-recession period (see Table 1).

But there are also risks to our economic growth

The strength of the labour market remains conditional to economic growth in the short-term. Subdued growth in business investment, rising construction costs and fiscal restraint are likely to moderate the growth of the national economy over the forecast period.

Global risks continue to be skewed downwards — the strong NZ dollar, geopolitical tensions and the increased protectionism — these are likely to result in reduced trade and lower cross-border investment flows. These uncertainties surrounding policies in New Zealand’s main trading partners will continue to hold back stronger recovery of the global economy.

³ New Zealand Institute of Economic Research, [Consensus Forecasts – March 2017](#).

⁴ The employment growth in 2017 was stronger than forecast GDP growth for the period, resulting in negative growth in labour productivity, as experienced in 2016. See [Productivity Statistics: 1978–2016](#).

⁵ [ANZ Business Outlook- March 2017](#)

Employment rising faster than labour supply growth will keep the unemployment rate within the 5 per cent range

The effects of strong population and employment growth will be evident in the labour market. Strong labour force participation and high levels of net migration will sustain continued strength in labour supply strong but high employment growth will see unemployment rate remain below 5 per cent in the short-term. While the expansion of labour supply can ease labour shortages, it can also increase unemployment over time.

The unemployment rate will remain at or below five percent over the forecast period (see Table 2). Even with labour supply easing due to slowing net migration levels over time, the unemployment rate will return to 5.0 per cent by March 2020 quarter, when employment growth declines to 1.3 per cent. The higher unemployment rates also coincide with labour productivity improvements and weaker employment growth forecast for 2019 and 2020.

Table 2: Forecast labour market indicators (%), March quarters

| Labour market indicators | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|------|------|------|------|
| Employment rate | 67.1 | 67.3 | 67.2 | 67.3 |
| Labour force participation | 70.6 | 70.7 | 70.7 | 70.8 |
| Working-age population growth | 0.7 | 0.5 | 0.5 | 0.2 |
| Unemployment rate | 4.9 | 4.8 | 4.9 | 5.0 |

Source: MBIE, Macro-labour market model

Appendix

Detailed employment forecasts available online

A complete set of industry and occupation employment forecasts by region is available on the Ministry's website at <http://www.mbie.govt.nz/info-services/employment-skills/labour-market-reports/forecasting/short-term-employment-forecasts>.

The short-term forecasting model draws on the latest macroeconomic forecasts

This report is published twice a year: usually in March/April and July/August of each year. This timing is based on the publication of Treasury's Economic and Fiscal Update and Statistics New Zealand's release of other underlying data used to refresh the Ministry's short-term economic model (every January/February of each year).

The forecasts are indicative of the likely growth path of employment. The Ministry uses a short-term forecasting model that draws on the Treasury's latest available GDP and macroeconomic forecasts, and productivity assumptions at the industry level. The model-based forecasts of industry level economic activity and productivity are used to derive regional employment forecasts by industry using recent changes in levels and shares of employment. The industry employment forecasts are then used to forecast employment by occupations and by skill levels by using the Census based occupational shares across industries. A top-down approach was used to forecast employment changes by regions.

The employment forecasts were updated and checked for consistency with the latest GDP and Household Labour Force Survey results, and New Zealand Institute of Economic Research (NZIER)'s Consensus Forecasts .

