



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

Quarterly Labour Market Report

August 2017



MB14363 August 2017



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

Ministry of Business, Innovation and Employment (MBIE)

Hikina Whakatutuki - Lifting to make successful

MBIE develops and delivers policy, services, advice and regulation to support economic growth and the prosperity and wellbeing of New Zealanders.

MBIE combines the former Ministries of Economic Development, Science + Innovation, and the Departments of Labour, and Building and Housing.

More information

www.mbie.govt.nz

0800 20 90 20

Information, examples and answers to your questions about the topics covered here can be found on our website www.mbie.govt.nz or by calling us free on 0800 20 90 20.

Disclaimer

This document is a guide only. It should not be used as a substitute for legislation or legal advice. The Ministry of Business, Innovation and Employment is not responsible for the results of any actions taken on the basis of information in this document, or for any errors or omissions.

ISSN 2253-5721

August 2017

©Crown Copyright 2017

The material contained in this report is subject to Crown copyright protection unless otherwise indicated. The Crown copyright protected material may be reproduced free of charge in any format or media without requiring specific permission. This is subject to the material being reproduced accurately and not being used in a derogatory manner or in a misleading context. Where the material is being published or issued to others, the source and copyright status should be acknowledged. The permission to reproduce Crown copyright protected material does not extend to any material in this report that is identified as being the copyright of a third party. Authorisation to reproduce such material should be obtained from the copyright holders.

New Zealand's Labour Market

- Labour demand remains robust, despite quarterly fall in employment. Over the year, employment has risen by a solid 76,000, due to growth in business services, construction, and education.
- We expect labour demand to remain solid over the next 3 years, driven by construction, business services, health and education.
- Migration-led population growth remains strong, although we expect net migration to peak in mid-2018. Participation rates remain at elevated levels despite a quarterly drop.
- The labour market is tightening, with unemployment continuing to trend down, underutilisation dropping, and businesses increasingly reporting difficulties in finding labour.
- Tightening of the labour market is yet to be reflected in wage growth.

1. Labour Demand

■ SUMMARY

- Labour demand robust, 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, especially skilled labour, and this is a potential constraint on growth.
- 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 robust, despite quarterly fall in employment

Indicators of labour demand were mixed in June, but remain consistent with solid job growth. The Household Labour Force Survey (HLFS) recorded a surprise 4,000 drop (-0.2 per cent) in employment over the quarter, as a large fall in part-time employment more than offset growth in full-time employment. The quarterly fall in employment, the first since September 2015, was well below market expectations of a 0.6-0.7 per cent rise.¹

The Quarterly Employment Survey (QES) was more in line with expectations for the June quarter, showing a 0.7 per cent rise in full-time equivalent employees, and a 1.0 per cent rise in filled jobs. Both HLFS and QES recorded a rise in total hours worked (up 1.0 per cent and 0.9 per cent over the quarter respectively). This suggests that overall, labour demand is robust.

This is the first quarter in which annual HLFS comparisons are not affected by design changes introduced in June 2016.² Over the year to June, employment grew by 76,000 (3.1 per cent), with the bulk of growth (61,000) coming from full-time employment. At an industry level, the main drivers of growth were professional and administrative services (up 31,600), construction (up 18,000), education and training (up 16,700), transport, postal and warehousing (up 11,700), and rental, hiring and real estate services (up 10,100). At a regional level, the main drivers of employment growth were Auckland (up 35,700), Waikato (up 14,200), Wellington (up 12,500), and Otago (up 5,800).

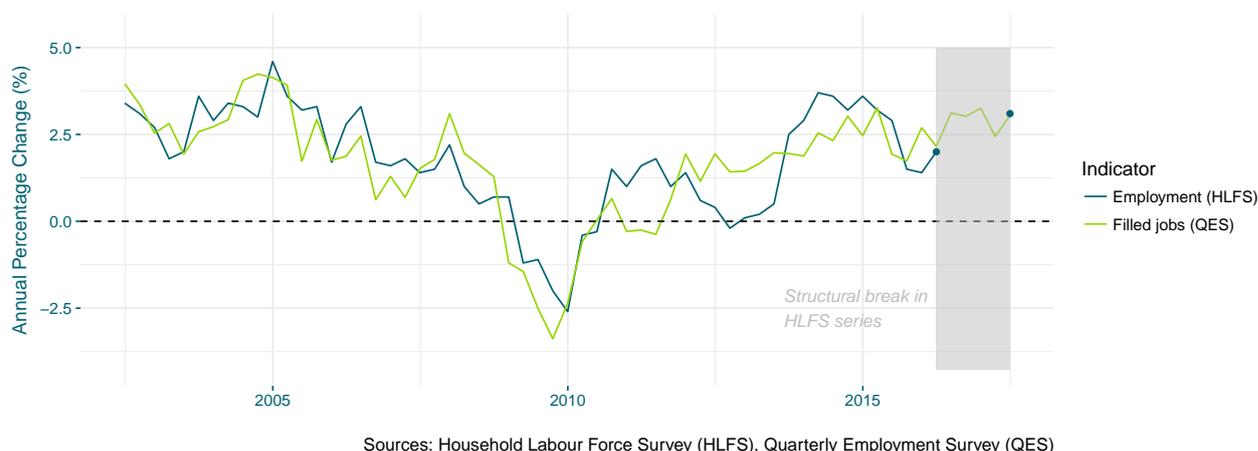
Business indicators are pointing to continued employment growth. In the latest ANZ Business

¹Treasury, Monthly Economic Indicators, July 2017

²For further information on these changes, see Statistics New Zealand, Household Labour Force Survey- Revisions to labour market estimates

Outlook, the net proportion of businesses intending to increase employment over the year rose to 26 per cent, the highest level since May 2014.³

Figure 1: Indicators of Labour Demand



Businesses report increasing difficulties in finding labour

While businesses are looking to expand employment, they are still reporting difficulties in finding the right employees. According to NZIER's Quarterly Survey of Business Opinion (QSBO), a net 47 per cent of businesses had trouble finding skilled labour (up from 41 per cent last quarter, and well above the long-run average of 18 per cent).⁴ These difficulties were reported across all industries. The survey also reported that businesses were planning to invest more in plant and machinery, and tentatively suggested that this may be a response to labour shortages. Difficulty finding unskilled labour was steady over the quarter, but is also above the long-run average.

Other indicators are pointing in a similar direction. ANZ's Business Outlook survey reports that a lack of skilled employees is the biggest problem facing small businesses, and has been for the past five quarters.⁵

Despite these difficulties, both MBIE and ANZ have been showing a slowing in job ad growth. MBIE's All Vacancies Index rose by 0.5 per cent in June, dropping off the 0.9 per cent averages recorded since 2015.⁶ ANZ reported job ad growth slowing to just 0.5 per cent quarter to quarter.⁷ ANZ's observation of this aligns with their labour/skill shortage story: unable to find the right staff, firms are giving up on advertising.

³ ANZ Business Outlook, July 2017

⁴ NZIER, Quarterly Survey of Business Opinion, June 2017

⁵ ANZ Business Micro Scope, June 2017

⁶ MBIE, Jobs Online, June 2017

⁷ ANZ New Zealand Job Ads, July 2017

Figure 2: Ease of finding labour

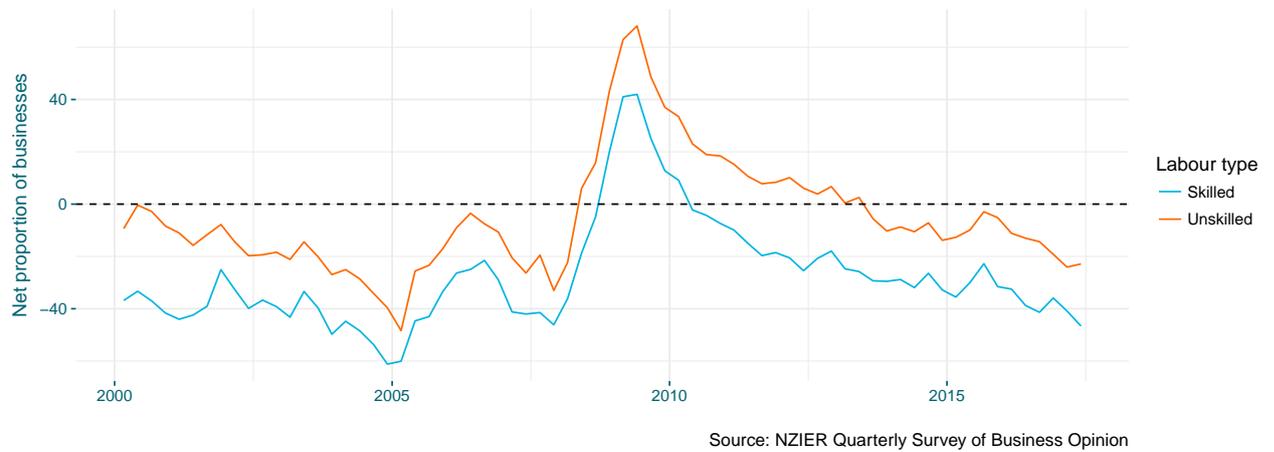
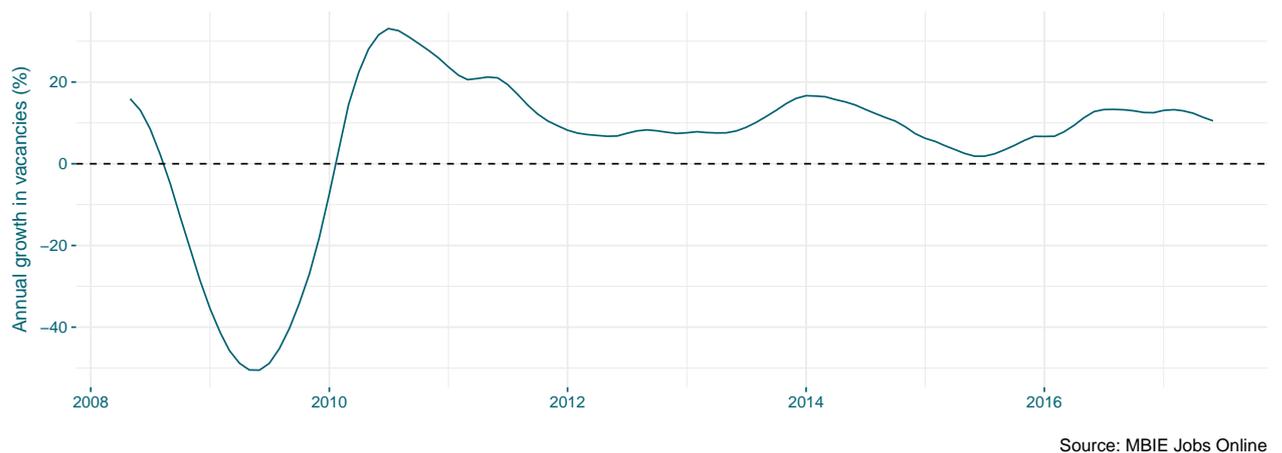


Figure 3: Annual growth in all vacancies



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).⁸

Employment growth will be concentrated among highly skilled occupations, particularly business and systems analysts and programmers, ICT managers, and legal professionals. Growth among

⁸MBIE, 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

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.

2. Labour Supply

■ SUMMARY

- Labour supply remains elevated, despite a fall in the participation rate
- Work visas are the main drivers of increased migrant arrivals, as return of New Zealand citizens slows, and student visas decline.
- Net migration is expected to peak in mid-2018.

Labour force participation rate remains elevated, despite quarterly drop

New Zealand's working-age population continued its solid growth, rising by 0.5 per cent (20,000 people) over the June quarter. This rise in population, combined with a fall in both the number of people employed (down 4,000) and unemployed (down 3,000) over the quarter led to a fall in the labour force participation rate (from 70.6 to 70.0 per cent). This is still high by historic standards, and when compared to other countries: New Zealand has the fourth highest labour force participation rate for 15-64 year olds, and the second highest for 15 years and older.

The number of people 'not in the labour force' (NILF) rose by 26,000 (2.4 per cent) over the June quarter, with 20,000 of the increased NILF being women. The cause of this rise in NILF is not immediately clear.

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).⁹

Growth in the 25-34 year old population is migration driven, as net migration is concentrated in younger age groups. Between June 2013 and June 2017, New Zealand's 25-34 year old population increased by 23 per cent. (Between June 1986 and June 2013, the 25-34 year old

⁹New Zealand Treasury Working Paper 05/09, The effect of New Zealand Superannuation eligibility age on the labour force participation of older workers, November 2005

population increased by just 2.4 per cent).

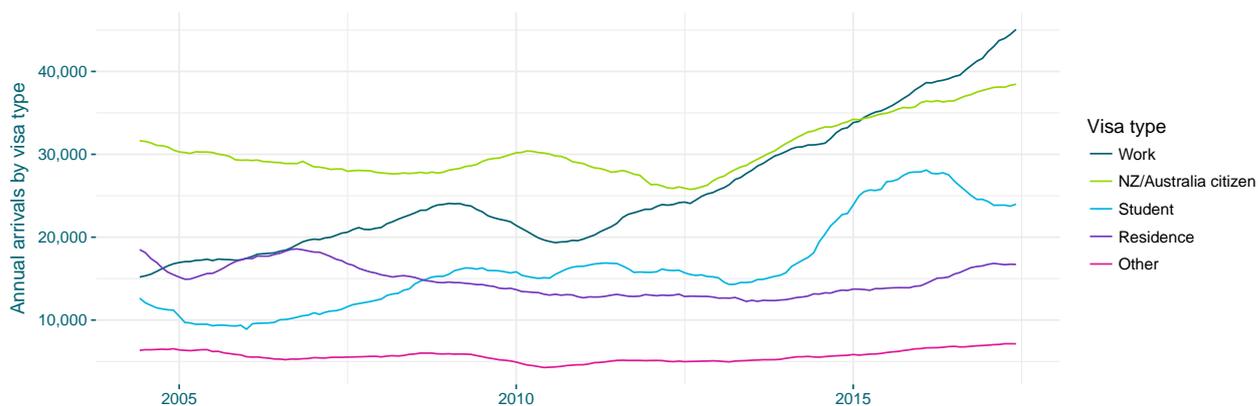
Net migration to peak in mid-2018

Net migration hit a new record of 72,300 in the year to June 2017. Migration levels have been steadily increasing since 2012. Recent growth in net migration has been mostly driven by increased arrivals, with departures levelling out in the last year.

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 peak at about 77,000 in the June 2018 year. The slow-down in the arrivals of New Zealand and Australian citizens is compensated for by increasing arrivals of non-New Zealand and non-Australian citizens from Australia and the United Kingdom in the short-term. The departure of New Zealand citizens to Australia, which has been declining over the past three years, will stabilise. Departures of non-New Zealand citizens to Australia is expected to increase.

Figure 4: Annual migrant arrivals by visa type



Source: Permanent and Long-Term Migration

3. Labour Market Outcomes

■ SUMMARY

- Unemployment and underutilisation has fallen
- Increased levels of participation in education have improved outcomes for youth
- Māori and Pacific Peoples outcomes are steady over the year
- Tightening of the labour market is yet to be reflected in wage growth.

Spare labour capacity continues to decline

The unemployment rate fell 0.1 percentage points to a seasonally-adjusted 4.8 per cent in the June quarter, the lowest it has been since December 2008. The fall reflects 3,000 fewer unemployed people over the quarter. Since peaking in 2012, the unemployment rate has been steadily trending downwards.

Underutilisation has also fallen over the quarter, down 0.5 percentage points to 11.8 per cent. This represents 13,000 fewer underutilised people: with underutilisation encompassing people unemployed, underemployed (part-time wanting more hours), unavailable jobseekers, and available potential jobseekers.

Declining spare capacity can also be seen in welfare statistics. Over the year there was a 1.4 per cent decrease in the number of working-age people receiving a main benefit, attributable largely to a 4,800 (7.3 per cent) decrease in the number of Sole Parent Support recipients, slightly offset by a rise in the number of Jobseeker Support recipients (up 800). The rise in Jobseeker Support numbers was due to an increase in recipients with a health condition or disability, rather than work ready recipients, which fell.

Figure 5: Unemployment rate over time



Source: Household Labour Force Survey

Youth outcomes improve as more youth choose education

The seasonally-adjusted proportion of 15-24 year olds not in employment, education or training (NEET) fell 1.6 percentage points to 11.1 per cent in the June quarter. This represents 12,000 fewer NEET. One of the big drivers of this fall has been a large increase in the seasonally-adjusted number of youth not in the labour force but in education (up 16,000, or 8.4 per cent). This increase was observed for both 15-19 year olds and 20-24 year olds. The number of youth in employment fell over the quarter (down 11,000, or 3.0 per cent).

The fall in NEET was recorded across both sexes and both 15-19 year olds and 20-24 year olds. The female NEET rate fell 1.5 percentage points to 12.2 per cent, the lowest since the series began in 2004. The male NEET rate fell 1.8 percentage points to 10.1 per cent. The NEET rate for 15-19 year olds fell 1.6 percentage points to 8.8 per cent. The NEET rate for 20-24 year olds also fell 1.6 percentage points to 13.2 per cent, the second lowest result in the history of the series.

Māori and Pacific Peoples outcomes steady over the year

Labour market outcomes for Māori and Pacific Peoples did not show any significant improvement over the year to June 2017. Both groups saw an increase in unemployment rates, (Māori up 0.1 percentage point to 11.1, and Pacific Peoples up 1.0 percentage points to 10.1 per cent), and a decrease in their employment rates, (Māori down 0.6 percentage point to 60.3, and Pacific Peoples down 0.4 percentage points to 58.8 per cent).

Declining employment rates are a consequence of population growth outpacing employment growth for both Māori and Pacific Peoples. Māori population rose by 8,600 over the year, but employment only increased by 2,400. Pacific population rose by 12,700, with a 6,600 increase in employment. By way of contrast, New Zealand European population rose by 6,800 with a 13,400 increase in employment, and Asian population rose by 40,900 with a 38,000 increase in

employment.

NEET rates have also increased over the year for both Māori and Pacific Peoples: up 2.2 percentage points (to 19.6 per cent) for Māori, and up 3.2 percentage points (to 18.6 per cent) for Pacific Peoples.

Wage growth remains steady, despite evidence of a tight market

Evidence of a tightening labour market has yet to be seen in wage growth. Labour cost index salary and wage rates (including overtime) increased by 1.7 per cent over the year, while ordinary-time hourly earnings from the Quarterly Employment Survey were up 1.6 per cent. 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.¹⁰

Wage rates were pushed slightly upwards this quarter as minimum wage increases took effect, with the impact most noticeable in the accommodation and food services and retail industries. Salary and wage rates for the education and training sector rose 2.4 per cent as the Ministry of Education’s collective employment agreements were implemented. We expect to see further upward wage pressure in the next quarter, as the Care and Support Worker (Pay Equity) Settlement Act is enforced.

Growth in wages for women were particularly strong in the year to June, with average ordinary-time hourly earnings up 2.4 per cent. By comparison, male average hourly earnings rose by 0.9 per cent. This growth is attributable to wage growth in female-dominated industries, such as education and training and retail trade.

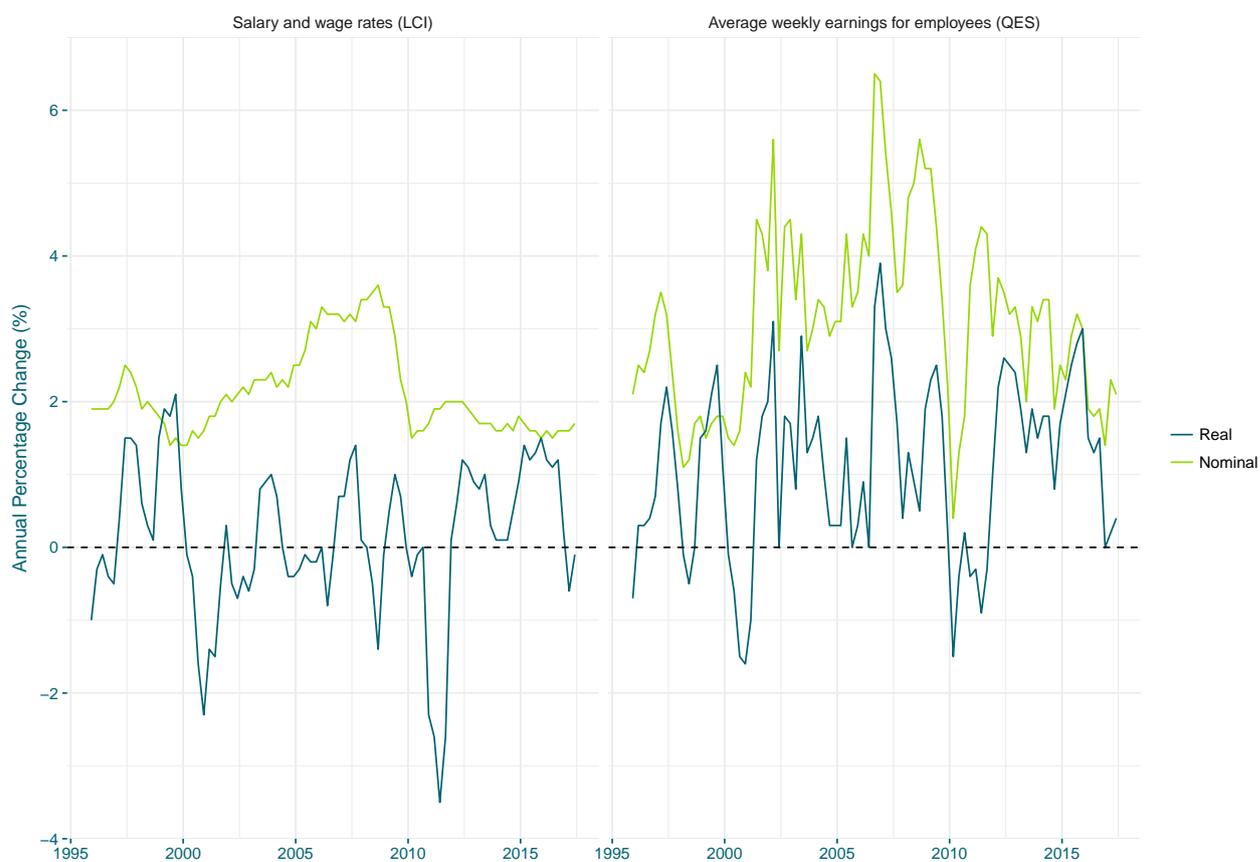
Figure 6: Indicators of wage growth



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

¹⁰Reserve Bank of New Zealand, Monetary Policy Statement, August 2017

Figure 7: Nominal and real wage growth



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

Low rates of inflation over the past five years have ensured that real wage growth have been rising despite low nominal growth. Low consumer inflation is a factor in low wage inflation, as cost of living adjustments remain low.

Despite the apparent shortage of labour, workers expectations of wage increases (as measured by the Westpac McDermott Miller Index) have been generally trending downwards since 2011. This is in line with some 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.¹¹

¹¹Reserve Bank of New Zealand, Monetary Policy Statement, May 2017

