

LABOUR MARKET TRENDS AND OUTLOOK

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Abstract

This paper provides an overview of trends in the New Zealand economy and labour market in 2001 and 2002, and the outlook for 2003 and 2004. More people than ever before have been attracted into the New Zealand labour market during the last two years – from outside the labour force and from around the world – encouraged by robust growth in employment and wages, low unemployment, and employers who are finding it difficult to find suitable staff. The main driver of improving labour market conditions has been strong growth in the New Zealand economy (an average of 3½ percent per annum in the last three years), despite the recent downturn in the world economy. The pattern of economic growth has changed in recent years, leading to varying rates of employment growth by industry and region. Nevertheless, labour market conditions have improved across the majority of regions, as well as across most of the broad ethnic and age groups, and by gender. The outlook is for the New Zealand economy to experience solid growth over the next two years, although there are important upside and downside risks. The positive central outlook is expected to see labour market conditions remain relatively strong during 2003 and 2004.

Introduction

The strength of the New Zealand labour market has surprised many commentators over the past two years². The unemployment rate on an annual basis is now at a 14-year low of 5.3 percent, falling from 6 percent in 2000 and almost 7 percent in 1999. Strong growth in the economy has led to high job growth, which has encouraged people to work and look for work in New Zealand, from outside the labour force (the participation rate is at a 17-year high), and from outside the country (permanent arrivals exceeded departures by a record 37,100 in the past year). Employment growth is expected to fall over the next two years in line with a forecast decline in economic growth, but solid job growth is still expected, and unemployment is predicted to be fairly steady at current low rates.

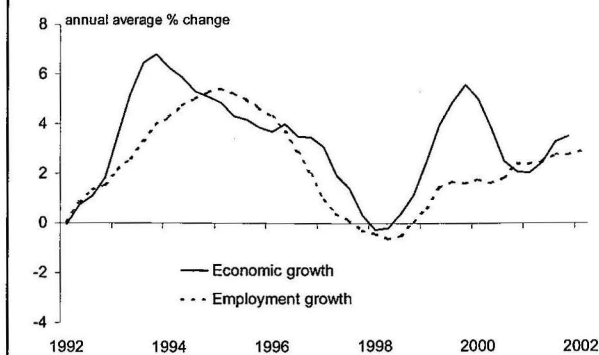
The paper begins by examining recent developments in the New Zealand economy and labour market. This helps explain regional trends in the next section, followed by a look at labour market results by gender, ethnicity and age. The paper finishes with an outlook for the economy and labour market, and ideas for future research.

Economic Trends

The recent performance of the New Zealand economy has been nothing short of impressive. Amidst a synchronised downturn in much of the developed world, the New Zealand economy grew by 3½ percent in the year to June 2002. Compare this with growth of 0.8 percent in the United States, 0.7 percent in the Euro area and -2.2 percent in Japan. Of major trading partners, only China and Korea exceeded our high growth rate, while trans-Tasman neighbours Australia matched us with growth of 3.8 percent in the year to June 2002. So how did we end up in the position of world-beating growth?

Of course, it partly reflects the sharp fall of growth in many economies around the world, but it also reflects a strengthening of the New Zealand economy that began in late 2000 and has continued to the present day. The New Zealand economy performed very strongly in 1999 coming out of the Asian Financial Crisis and drought-induced recession of 1997/98 (*Figure 1*). Things took a turn for the worse, however, as business confidence dived in response to new policy developments, Gross Domestic Product (GDP) declined in the second quarter of 2000, and the current account deficit was very high; these events combined to send the New Zealand dollar to an all-time low of US\$0.39. Somewhat ironically, the crash in the local currency was one of four factors that helped put the economy back on track. Another key factor had

Figure 1: Economic & Job Growth



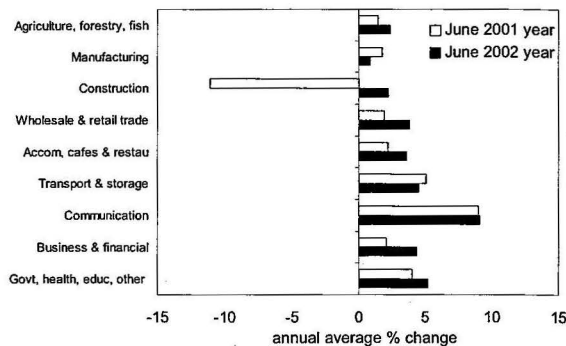
Source: Statistics New Zealand

been developing – the world price of our commodities rose by over 20 percent from a 12-year low in 1999 to a peak in mid-2001. Together with the exchange rate depreciation, the New Zealand dollar price of our commodities rose to incredibly high levels, 50 percent above the average of the 1990s. Finally, world demand was high prior to the global downturn, and primary production was strong in 2000/01 despite drought conditions in some parts of the country. Prices and production were particularly buoyant in the dairy sector.

The large boost to farm incomes saw the beginning of a domestic sector recovery in 2001 as farmers opened their wallets for spending and investment. The domestic recovery was well underway as the first half of 2001 came to an end, and not even an electricity crisis in the middle of the year (low rainfall reduced hydro-dam water levels) could slow growth for long. Interest rates had been lowered in response to global weakness, large net migration outflows had turned to inflows, and incomes were growing (from the farm, and from high job and wage growth), supporting strong consumption and residential investment during the latter half of 2001. The result was high activity in retail trade, hospitality and the housing-related industries of construction, real estate and financial services.

Tourism was another important source of growth, as overseas tourist arrivals grew by 30 percent in the two years to August 2001. The terrorist attacks on New York and Washington DC on 11 September 2001 (US time) had little impact overall on the domestic economy (confidence dived and soon returned), but did result in a sharp fall in tourist arrivals. They rebounded in late 2001, but growth has not returned to earlier high rates. The terrorist attacks on the US created much uncertainty around the world, leading the Reserve Bank of New Zealand to cut interest rates again. Net migration inflows were also affected, as people were attracted to the safe shores of New Zealand, and discouraged from leaving. These factors boosted the domestic economy further, including population-dependent services such as health and education (supported by high growth in overseas

Figure 2: GDP Growth by Industry



Source: Statistics New Zealand

students), and the infrastructure sectors of transport and communication.

Just as the domestic economy was taking off though, the external sector began to weaken. The downturn in the world economy took its toll on both the volume of local exports and the prices for our commodities in the second half of 2001. Nevertheless, high primary production, and strong demand for our exports from some nations, led to very strong growth in export volumes in the first half of 2002.

The story of economic growth just described, that of a shift from external to domestic-led growth, is nicely summarised when looking at industry growth in each of the years to June 2001 and June 2002 (*Figure 2*). The lift in GDP growth occurred particularly for domestically focussed sectors. Construction had the sharpest turnaround, and all service industries enjoyed strong growth in the June 2002 year, with transport and communication especially buoyant. The export-orientated sectors of fishing and mining had falls in output, growth fell for manufacturing, while strong primary production was reflected in higher growth in agriculture and forestry.

Labour Market Trends

The labour market has certainly seen the benefit of this economic growth over the last few years, with strong employment growth resulting in a large fall in unemployment. This strength has attracted more and more people into the New Zealand labour market, as a record number of people permanently arrived in New Zealand, fewer people left the country, and the rate of participation in the labour force rose sharply. Despite strong labour force growth, high job growth saw the unemployment rate decline to a 14-year low of 5.1 percent in the June 2002 quarter (seasonally adjusted), contributing to a high level of staff shortages and rising wage growth.

Employment

Local firms began hiring again in the second half of 2000, after employment declined in early 2000, and have not stopped since. Official employment as measured by the Household Labour Force Survey (HLFS) has grown by an average of 2.7 percent in each of the last two years. The increase in employment during the year to September 2002 of 2.9 percent is the highest annual average growth since the March 1997 year, and is equivalent to an extra 52,900 people in employment (*Figure 1*).

Job growth has followed growth in the economy quite closely during the last two years – the lift in GDP growth from 2.1 percent in the June 2001 year to 3.5 percent in the June 2002 year has seen job growth rise from 2.4 percent to 2.9 percent (*Figure 1*). Similarly, employment growth by industry has mimicked the fortunes of each industry: health and education have benefited from the rise in population growth; strong job growth in hospitality resulted from the high number of international tourist arrivals in recent years and high consumer spending; booming real estate and housing activity has seen employment rise strongly in construction, and property and business services; and agriculture and transport employment rose thanks to the surging primary sector (*Figure 3*). The main exceptions to the link between GDP and job growth are wholesale and retail trade, and communication, which both had strong growth in output but declining employment over the last year.

By occupation, employment growth was highest for professionals over the last two years, particularly for males. This continues a trend of strong growth in professional occupations in the late 1990s, as highlighted by the work of Boonzaier and Heyes in this volume. However, contrary to the experience between 1996 and 2001, the next highest job growth was in clerical occupations, for females especially.

Part-time and full-time employment have both grown strongly during the last two years³. Full-time

employment rose by around 35,000 people in each of the last three years (around 2½ percent), making up most of the increase in employment numbers over this period. After a fall in the year to September 2000 and low growth of 7,000 people the next year, part-time employment rose by a strong 18,000 people, or 4½ percent, in the year to September 2002. The percentage growth in part-time work over the last decade remains far higher than for full-time work.

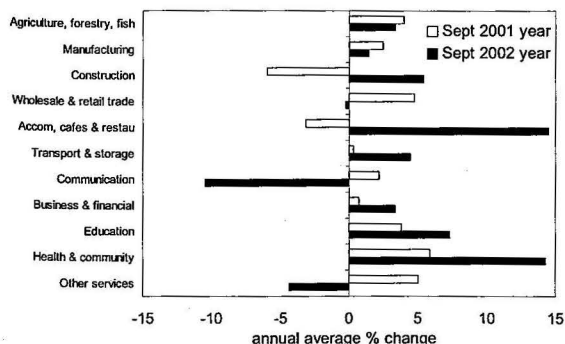
Labour force

The strength of the New Zealand labour market has attracted many people into work and into looking for work, lifting labour force growth from just 0.7 percent in the September 2000 year to 1.6 percent the next year and finally to a strong 2.8 percent in the year to September 2002. The two factors behind this sharp rise have been higher working age population growth and a higher rate of labour force participation.

People have been coming in droves from overseas, encouraged by New Zealand's relative safety and economic strength of recent times. An all-time high of 95,400 people arrived in New Zealand during the year to September 2002 for a permanent or long-term (PLT) stay. This is up 20,700 from the previous year, due to a large rise in arrivals from Asia, particularly China, India, and South Korea. As such, 80 percent of the 20,700 arrivals increase was due to more non-New Zealand citizens, rather than to a flood of Kiwis returning home. Some did return though, as New Zealand arrivals increased by 3,500 over the last year (coming home from Australia and the UK/Ireland). Looking at the age composition of arrivals, we find that almost a third of the last year's 20,700 increase was in the 15-24 age group. This reflects the growing attraction of New Zealand as a place for education among Asians, who made up the vast majority of the large increase in 15-24 year old arrivals.

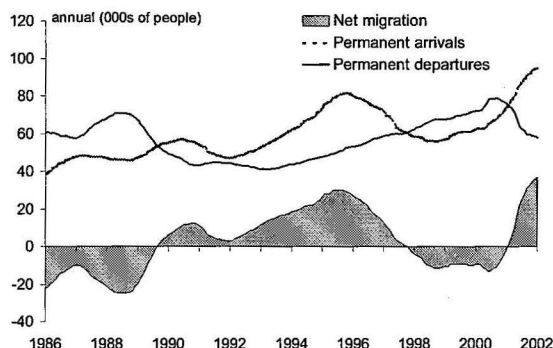
Just as significant as the rise in arrivals is the fact that people are leaving the country in fewer numbers. A five-

Figure 3: Employment Growth



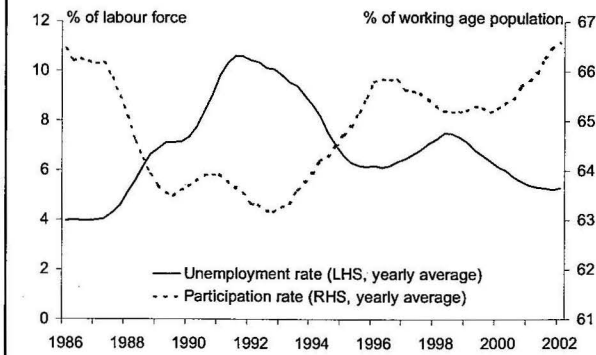
Source: Statistics New Zealand

Figure 4: Migration Flows



Source: Statistics New Zealand

Figure 5: Unemployment & Participation



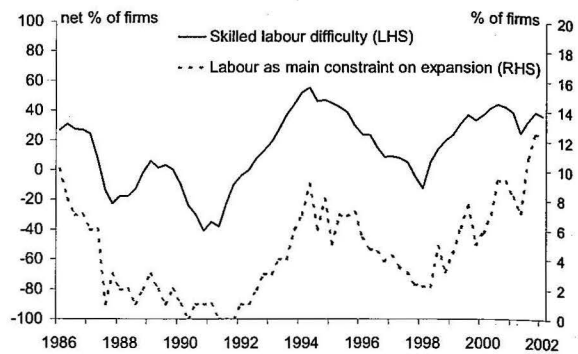
Source: Statistics New Zealand

year low of 58,300 people left New Zealand over the year to September 2002, down sharply from 76,400 a year earlier. Almost all of this 18,100 fall in PLT departures was due to a fall in New Zealand citizens moving overseas, mainly because 13,800 fewer moved to Australia. These falls have occurred as the strength of the New Zealand economy and labour market have encouraged people to stay. The other main factor has been the tightening of benefit eligibility for New Zealanders in Australia early last year, which initially boosted departures (people brought forward their moves), and then discouraged people from leaving.

The increase in arrivals and fall in departures resulted in an all-time high net PLT migration inflow of 37,100 people in the year to September 2002. This was well above the previous peak of 30,200 in the year to April 1996, and is a very sharp turnaround from a net outflow of 13,200 in the year to February 2001. In terms of working age population, the net inflow of migrants over the last year was 29,400, compared to a net outflow of 1,200 a year earlier. The change from large net outflows to large net inflows has increased working age population growth from around 0.6 percent in the year to September 2000 to 1.5 percent in the year to September 2002.

High population growth has not lowered the proportion of people participating in the labour market. If anything, the decline in departures and selection bias towards migrants with skills or a job offer has helped lift the participation rate over the past year to the highest annual rate recorded since the HLFs began in 1985. People have been participating in the labour force at higher and higher rates, rising from 65.3 percent of the working age population in the September 2000 year to 65.8 percent a year later and to the current high of 66.6 percent (Figure 5). The 18,000 fall in the number of people outside the labour force during the last two years was concentrated in a decline of 14,700 in retired people and 8,300 in people at home looking after children (for females, as it rose for males), which offset a 9,600 increase in the number of people outside the labour force and studying. The fall in retired people and women looking after children is likely to be because of policy changes (the gradual increase in

Figure 6: Staff Shortages



Source: New Zealand Institute of Economic Research

the superannuation age from 60 to 65, and introduction of work-testing for domestic purpose benefits) as well as the good job prospects of late.

Unemployment

Unemployment reached a recent peak of 7.7 percent in the December 1998 quarter (seasonally adjusted) as job growth slowed and turned negative in response to the recession of 1997/98. From there, the unemployment rate fell sharply to an average of 6.8 percent in 1999, declined to average 6.0 percent in 2000, and then dropped again to 5.3 percent in the year 2001 (Figure 5). The initial fall was more of a reflection of low labour force growth than strong job growth, but this changed in 2001 when high job growth was needed to offset high growth in the labour force. The rate of unemployment has since fallen to a new 14-year low of 5.1 percent in the June 2002 quarter, before rising to 5.4 percent in the September 2002 quarter (both seasonally adjusted). Nevertheless, the annual unemployment rate still averages 5.3 percent in the year to September 2002, and remains a very low unemployment rate in the context of the past 15 years. New Zealand's unemployment rate compares well with the OECD average of 6.9 percent, and has improved in the OECD rankings by at least two places to around 12th lowest, bettering the US and Japan.

The past year has seen the labour force grow by 54,200 people (or 2.8 percent), exceeding the rise in employment of 52,900 (2.9 percent). The difference, 1,300 people, have entered unemployment, but the rate of unemployment has fallen to 5.3 percent in the September 2002 year, from 5.4 percent in the previous year. Strong growth in the population has resulted in higher numbers unemployed but slightly lower rates of unemployment. This compares with the September 2000 year, when a smaller rise in employment of 43,000 outweighed labour force growth of 30,000, lowering unemployment by 13,000.

Staff shortages

Staff shortages have become much more of a problem over the last two years, in response to strong growth in employment and large falls in unemployment (*Figure 6*).

According to the Quarterly Survey of Business Opinion (QSBO), the net percentage of firms reporting more difficulty in finding skilled staff rose to a 6-year high of 44 in March 2001, falling to a low of 25 later that year and rising again to 37 in September 2002. Therefore, while not as difficult as in early 2001, firms are finding it relatively hard to find skilled staff. This is particularly the case for building and manufacturing firms. Overall, high labour force growth has helped ease skill shortages since early 2001, when labour force growth was running very low.

Employers do not have as much difficulty finding unskilled staff, but even so, it is quite significant that this difficulty is now the highest in 17 years. One reason for this may be related to migration policies, which aim to attract the most skilled migrants to New Zealand. A net 19 percent of firms in New Zealand reported more difficulty finding unskilled staff in September 2002, the highest since mid-1985.

The shortage of staff has become a significant constraint on expansion for firms. One in eight firms listed labour as their primary constraint on expansion in September 2002, the highest level since 1975. By sector, building had the highest labour constraint, with one in three firms reporting labour as the main factor restricting expansion.

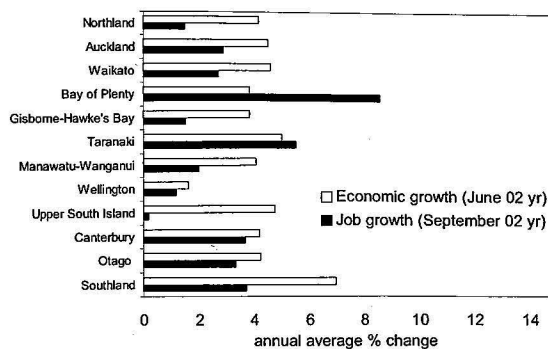
Wages

The Labour Cost Index (LCI) illustrates a gradual rise in annual growth in salary and wage rates over the last two years, from 1.5 percent in the year to September 2000 to 2.0 percent the next year and up again to 2.2 percent in the year to September 2002⁴. Reflecting the difficulty of finding suitable staff, the occupations with the highest wage growth during the last year were agriculture and fishery workers, trades workers, and health and teaching professionals.

Regional Trends

The pattern of economic growth across New Zealand's twelve main regions reflects the industry growth discussed earlier. Rural regions were the star performers during 2000/01 because of the primary sector boom. Southland, the Upper South Island regions (West Coast and Nelson-Marlborough), Otago and Taranaki recorded the top five growth rates in the June 2001 year as high farm incomes were spent in the rural economies. The urban areas of Auckland and Wellington did not fare as well, with the 12th and 10th highest growth rates respectively. The change towards domestic growth

Figure 7: Regional Growth⁵



Source: The National Bank, Statistics New Zealand

slowly began to show up, as Auckland's growth ranking rose to 6th in the June 2002 year, although Wellington is now last. The Auckland regional economy has benefited from the record high number of migrants into the country, which boosted services and construction in the region. Furthermore, negative external events such as the decline in commodity prices and the global downturn have not been felt as much in Auckland, where both consumer and business confidence are the highest in the country. While this is changing, rural regions remain at the top of growth rankings, as strong primary production in late 2001 and early 2002 has seen growth continue in areas like Southland, Hawke's Bay and Northland.

Labour market conditions have improved in most of New Zealand's main regions, generally in line with local economic developments (*Figure 7 and Table 1*). The twelve regions can be classified into four categories of labour market performance over the past two years; strong improvement and strong conditions, strong improvement but still weak conditions, stable with strong conditions, and stable with weak conditions.

Five of the twelve regions experienced a strengthening of labour market conditions to very strong levels in the past two years: Auckland, Taranaki, Upper South Island, Canterbury and Southland. The last four of these regions had strong primary sector-driven economic growth that led to high job growth, while Auckland had high job growth despite below average economic growth over the two year period. Taranaki wins the prize for most improved – the unemployment rate declined from 8.1 percent in 2000 to 5.2 percent in 2002. The top region in terms of labour market performance of this group is the Upper South Island, where the annual unemployment rate is just 3.5 percent of the labour force, the lowest in the country, and the participation rate is the fourth highest at 67.6 percent.

Another three regions can be categorised into the 'strong improvement but still weak' group. Gisborne-Hawke's Bay, Manawatu-Wanganui and Otago enjoyed strong job growth, which has flowed through to improve other labour market indicators. Unemployment has fallen to

low levels for Gisborne-Hawke's Bay and Manawatu-Wanganui, and labour force participation rates have risen sharply for all three regions. The Gisborne-Hawke's Bay labour market had the largest improvement of this group during the last two years. Nevertheless, unemployment and participation rates remain average or weak in these three regions compared to those for the whole of New Zealand.

Labour market conditions have remained relatively stable for Northland, Bay of Plenty, Waikato and Wellington. For Northland and Bay of Plenty, conditions have stayed relatively poor, with the highest unemployment rates and two of the lowest participation rates in the country. Bay of Plenty experienced very strong job growth in the year to September 2002 of almost nine percent, but this follows a sharp fall in employment during the previous year. For Waikato and Wellington, labour market conditions remained fairly steady at strong levels.

Labour Market Results by Gender, Ethnicity and Age

We now turn to the labour market performance of each gender and the main ethnic and age groups, where the highlights of the past year or two are given (*Table 1*).

The improvement in labour market conditions has been similar for both males and females. Employment growth has almost been identical over the last two years – male employment rose 5.1 percent between the year to September 2000 and the year to September 2002, compared to a 5.8 percent increase for females. The rate of labour force participation has improved for both genders over the last few years. Female participation rose from 57.4 percent in the September 2000 year to an all-time high of 59.1 percent in the September 2002 year, a little more than the increase in male participation from 73.5 percent to 74.6 percent. The recent rise in male participation goes against the downward trend of the past 15 years, as happened in the cyclical upturn of the mid-1990s, but is still well below the rates of almost 80 percent in the mid-1980s.

The main story of recent labour market performance by ethnicity is the very strong improvement for Maori and Pacific Peoples and the continued strength of European/Pakeha labour market conditions. Maori and Pacific Peoples have experienced very strong job growth of around ten percent in the year to September 2002, leading to falls in their unemployment rate of at least two percentage points (to 11.7 percent for Maori and 9.7 percent for Pacific Peoples). A very high 66.3 percent of Maori aged 15 years and over participated in the labour force in the past year, the highest since 1987 and up sharply from 63.9 percent in the September 2000 year. Pacific Peoples had a smaller rise in their participation rate to 62.1 percent, but had high labour force growth due to strong population growth. Despite large improvements over the past two years, Maori and Pacific results are still poorer than those of European/Pakeha, whose

unemployment rate stood at 3.9 percent and participation rate at 68.2 percent in the year to September 2002.

Another ethnicity story is related to the 'Other Ethnic Group'. This group enjoyed the strongest rate of job growth over the last two years, as well as the strongest labour force growth. This labour force growth was due to high population growth caused by record immigration numbers to New Zealand. The unemployment rate fell from 10.1 percent in the September 2000 year to 8.7 percent in the September 2001 year, but rose slightly to 8.9 percent in the latest year, and their labour force participation rate was fairly steady (after falling sharply over the first half of the 1990s). These developments are in contrast to the large improvement of the other three ethnic groups, and reflect the initial difficulty that recent migrants have in participating in the labour force and finding work.

We've already talked about some age trends in this paper – that of high recent net immigration of 15-24 year olds and the fall in the number of retired people. The latter trend needs more examination. The largest increases in the rate of participation over the last two years occurred for those aged 55 years and over, and two of the largest unemployment rate declines were in the 55-59 and 60-64 year age groups⁶. In fact, half of the employment increase in the two years to September 2002 was among those aged 55 years and over. The increased age of superannuation entitlement, the removal of a compulsory retirement age, increased life-expectancy, a cohort effect as those with higher participation rates enter new age bands, and very positive labour market conditions are the main factors behind the strong performance of the older age groups.

Table 1: Rates of Employment Growth, Labour Force Participation and Unemployment

Average for Year to September	Employment growth (ann. average % change)		Participation rate (% of working age pop.)		Unemployment rate (% of labour force)	
	2000	2002	2000	2002	2000	2002
Gender						
<i>Male</i>	2.0	3.0	73.5	74.6	6.2	5.2
<i>Female</i>	1.5	2.8	57.4	59.1	6.1	5.4
Ethnic groups						
<i>European/Pakeha</i>	0.1	0.9	66.5	68.2	4.6	3.9
<i>Maori</i>	14.3	9.6	63.9	66.3	14.1	11.7
<i>Pacific Peoples</i>	3.6	12.3	60.9	62.1	11.7	9.7
<i>Other Ethnic Group</i>	5.1	14.2	55.7	55.9	10.1	8.9
Age groups						
<i>15-19 years</i>	3.1	7.3	53.3	55.3	17.0	15.1
<i>20-24 years</i>	-0.5	3.0	73.2	74.2	9.8	8.9
<i>25-29 years</i>	-1.8	-2.6	80.1	79.5	6.1	5.9
<i>30-34 years</i>	1.1	1.1	78.3	78.7	5.4	4.8
<i>35-39 years</i>	0.5	-0.5	81.4	82.6	5.0	4.1
<i>40-44 years</i>	3.8	3.0	85.5	86.1	4.6	3.8
<i>45-49 years</i>	3.3	2.9	87.1	87.1	3.5	3.1
<i>50-54 years</i>	4.1	1.9	81.9	83.9	3.9	3.4
<i>55-59 years</i>	1.2	7.9	70.5	72.9	4.6	2.9
<i>60-64 years</i>	3.2	13.2	45.2	55.8	5.1	3.6
<i>65+ years</i>	9.7	14.6	7.5	9.5	2.0	1.8
Regions						
<i>Northland</i>	3.5	1.5	60.7	60.8	8.9	9.1
<i>Auckland</i>	1.4	2.9	65.9	66.0	5.6	4.9
<i>Waikato</i>	10.2	2.7	67.6	68.4	6.4	5.5
<i>Bay of Plenty</i>	9.6	8.6	64.1	64.4	8.0	7.6
<i>Gisborne-Hawke's Bay</i>	-3.9	1.5	61.9	65.2	7.2	5.3
<i>Taranaki</i>	-0.9	5.5	64.5	67.6	8.1	5.2
<i>Manawatu-Wanganui</i>	4.3	2.0	59.3	63.5	7.0	5.4
<i>Wellington</i>	0.1	1.2	68.1	69.5	5.2	5.0
<i>Upper South Island</i>	-3.8	0.2	66.2	67.6	5.4	3.5
<i>Canterbury</i>	1.8	3.7	65.7	68.5	6.1	5.2
<i>Otago</i>	2.2	3.3	63.5	65.8	6.0	5.7
<i>Southland</i>	-12.7	3.7	65.0	66.1	5.6	3.7
Total	1.8	2.9	65.3	66.6	6.2	5.3

Source: Statistics New Zealand

Note: these rates are calculated from data that are rounded to the nearest 100 people, so may differ slightly from the true rates. The Upper South Island region consists of Nelson, Tasman, Marlborough and West Coast.

Economic Outlook

The central outlook for the New Zealand economy is quite positive over the next year. Economic growth is widely expected to fall from the strong rates of around 4 percent per annum of the past year, but solid growth is still predicted. However, there is a wide range of views among forecasters, from continued strong growth to a sharp fall in growth. The latest set of local forecasts are from the Reserve Bank of New Zealand, in which 4¼ percent growth in the year to March 2003 is expected to fall to 2½ percent in each of the next two years. The September 2002 NZIER Consensus Forecast is for 2.7 percent growth in the year to March 2004 and 3.0 percent the next year.

The domestic economy will underpin New Zealand growth over the rest of 2002 and in 2003, as factors like relatively low interest rates, a high net inflow of migrants, and robust consumer confidence are expected to continue influencing consumer spending and residential investment. Domestic growth is not likely to be as strong as over the last year, however, as the recent sharp fall in export incomes begins to impact on local spending. The external sector has been hit by a large fall in commodity prices (although mainly for dairy products) and a rise in the New Zealand dollar, as well as poor news about the international economy, from the corporate scandals and doubts about recovery in the US to a drought in Australia. As a result of these concerns, firms are pessimistic about the outlook for general business conditions, particularly those in agriculture and manufacturing. Nevertheless, the global economy is still expected to recover gradually over the next year, and surveys show that firms remain reasonably optimistic about the outlook for their own activity and for intentions to increase investment. This suggests that investment growth will continue, and that confidence will return when global uncertainty subsides.

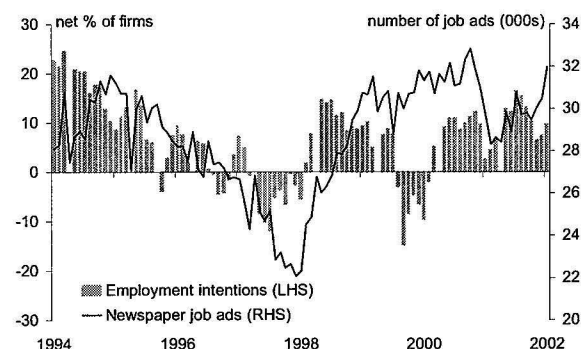
The most important risks are on the downside and involve international developments. Firstly, the risk of a renewed downturn – a “double dip” – in the US remains a large risk to the global economic outlook. Secondly, a multitude of risks surround a possible military operation in Iraq. The main upside risk involves the continued strength of the New Zealand economy, which could occur if business confidence rebounds, net immigration remains high and the world economy enjoys a solid recovery.

Labour Market Outlook

Labour market conditions are set to stay relatively strong over the next year and a half, and even to improve slightly. There is no doubt that recent job growth has been strong, but given modest seasonally adjusted HLFS job growth in the June and September 2002 quarters of 0.4 percent and 0.2 percent respectively, the question arises as to whether growth in employment will remain low, or whether it will return to the 2½-3 percent per annum rate. The projections outlined here are a balance

of these views, as employment is estimated to rise by 2½ percent in the year to March 2003 and around 1½ percent in the year to March 2004. Job growth of at least ½ percent is expected in each of the December 2002 and March 2003 quarters, supported by the likelihood of robust economic growth. Short-term employment indicators also point to solid job growth, as the number of ANZ Job Ads have risen strongly over the past three months to a 16-month high of 32,000, and National Bank Business Outlook (NBBO) employment intentions increased to a high +10 in October (*Figure 8*). In the short-term, employment growth is likely to come from domestically-oriented sectors, and in regions where these sectors dominate. Employment intentions are the highest among retail and service firms, and are above average in Auckland, Wellington and Christchurch, while jobs ads in Auckland have increased considerably in 2002. Based on a fall to solid rates of economic growth, job growth is expected to decline to around 1½ percent in the year to March 2004. The other factor involved in this fall is a forecast rise in labour productivity growth, as high staff shortages and rising wage growth encourage firms to invest in plant, machinery and equipment that acts to save the amount of labour used in production.

Figure 8: Employment Indicators



Source: The National Bank, ANZ Bank

The labour force is expected to increase by just below the rise in employment over the next two years. The strength of labour market conditions is expected to encourage people to stay in the labour force – the participation rate is expected to rise slightly from current high levels – and continue to attract people from outside the country – net migration inflows are predicted to continue, albeit a little less than over the last year (a gradual world recovery will encourage Kiwis offshore again and make New Zealand a relatively less attractive place to move to).

The unemployment rate is expected to be steady at between 5 and 5½ percent over the next year and a half, as job growth is predicted to roughly match growth in the labour force. A fall in the unemployment rate towards 5 percent in the first half of 2004 is expected, but the risk of it rising is quite significant. The lift in unemployment

in the September 2002 quarter highlights this risk, although the positive outlook for the economy is expected to translate into positive labour market conditions. Continued low unemployment is likely to see staff shortages remain around current high levels and see wage growth rise further over the next year.

Conclusion

The New Zealand labour market has improved considerably thanks to strong growth in the economy. High job growth reduced unemployment to the lowest level since the late 1980s, which induced a large increase in labour force growth. Service sectors like health and community, and education have enjoyed high job growth over the past two years, while hospitality and construction employment grew strongly in the last year. There have been strong improvements in the Taranaki and Gisborne-Hawke's Bay labour markets, and for Maori and Pacific Peoples. Nevertheless, Wellington and the Upper South Island have the strongest labour market

Notes

1. Simon McLoughlin is an assistant analyst at the Labour Market Policy Group of the Department of Labour. Thanks for helpful comments are owed to Patrick Conway, but the views represented in this paper are the author's own and should not be taken to represent the views of the Department of Labour. The text was finalised on 20 November 2002 and incorporates data available prior to that date (most data are given on an annual average basis, and are not seasonally adjusted unless otherwise specified).
2. The average NZIER Consensus Forecast at June 1999 was for a seasonally adjusted unemployment rate of 6.4 percent at March 2001 (actual was 5.4 percent) and 6.0 percent at March 2002 (actual was 5.3 percent), and while average unemployment forecasts for 2001 and 2002 were gradually revised down, this was more because of weak predictions for labour force growth than strong job growth.
3. Part-time employment is less than 30 hours per week, full-time employment is 30 hours or more per week.
4. These changes are annual percentage changes, whereas others are annual average percentage changes.
5. 'Gisborne-Hawke's Bay' refers to the Hawke's Bay region for economic growth but Gisborne-Hawke's Bay for job growth. Similarly, 'Upper South Island' refers to Nelson-Marlborough for economic growth and Nelson-Marlborough-West Coast for job growth.

conditions, as do European/Pakeha. Improvements by gender are fairly equal, and it was older age groups that benefited the most from the recent labour market strength. The outlook is for labour market conditions to improve slightly from their already strong position, based on forecasts of solid economic growth.

Future Research

Some important questions arise from this overview of the New Zealand labour market. The large fall in the unemployment rate, and the large rise in the labour force participation rate, beg the question of how much further these rates can improve. Other issues are the impact of large net migration inflows on the labour market and the strength of labour market results among older age groups. In addition, this paper has by no means covered all of the important trends of the last two years. Other worthwhile areas of analysis include trends in labour productivity growth, the gender pay gap, and real wage growth.

6. While the unemployment rate fell quite sharply for those aged 60-64 years, it is still well above the average over the 1990s of 3.0 percent.

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