

# OPENING PLENARY SPEECH:

## LABOUR MARKET TRENDS AND OUTLOOK

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### Introduction

This paper summarises the Plenary Address from the 15<sup>th</sup> conference on Labour, Employment and Work in New Zealand. This paper is based on the Ministry of Business, Innovation and Employment's (The Ministry) Quarterly Labour Market Report, which is a relatively new product that brings together a range of information on the economy and labour market. The first Quarterly Report was released in September 2012.

The following discussion will cover six key themes:

- Economic outlook
- Employment trends
- Labour supply and participation
- Matching supply and demand
- Migration to Australia
- Canterbury labour market.

### Economic outlook

The labour market continues to be affected by the protracted and fragile recovery from the downturn after 2008. While economic growth was surprisingly strong in the first half of 2012, we expect to see growth to be weaker in the September 2012 quarter. The Ministry expects a gradual improvement in the labour market over the coming year.

#### *Global economic scene*

Global growth remains subdued towards the end of 2012, with the IMF recently stating that "the global economy is coping with high debt and sluggish growth" (IMF, 2012).

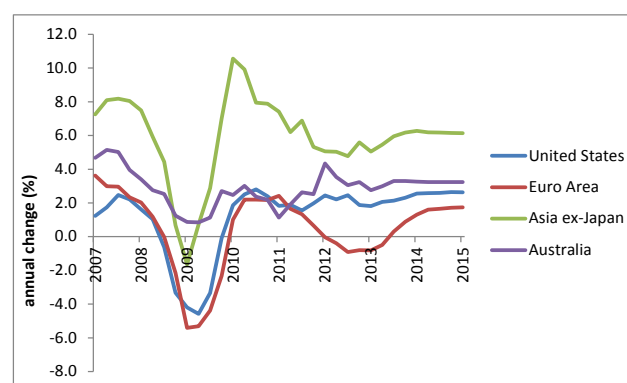
Reports are fairly mixed. The US job market has shown some signs of improvement and there are some reports that the Chinese economic growth may be improving. However, unemployment in the Eurozone rose to a record high of 11.6 percent in September, with Spain the highest at 25.8 percent and Austria the lowest at 4.4 percent. Europe's debt crisis together with the possibility of sharp tax increases and government spending cuts in the United States in January indicate further slow global growth prospects.

The IMF revised down the world output growth forecast for 2013 in its latest World Economic Outlook (ibid), from 4.1 percent in April 2012 to 3.6 percent. The International Labour Organisation (ILO) has estimated

that this revision in economic growth equates to about 3 million fewer people being employed globally during the year to 31 March 2013.

In this global context, the outlook for New Zealand's major trading partners remains relatively weak. Figure 1 shows the recent and forecast growth of our major trading partners.

**Figure 1: Economic growth rates for trading partners (annual percentage change)**



Source: Reserve Bank of New Zealand Monetary Policy Statement, September 2012

#### *Domestic economic scene*

The New Zealand economy continues to recover slowly from the 2008/09 recession, and GDP growth over early 2012 has been stronger than expected.

Agricultural output (led by milk production) made the largest contribution to growth in the June 2012 quarter, reflecting the excellent growing conditions in the quarter.

There is also evidence of an acceleration of post-quake reconstruction activity in Canterbury, with strong growth in construction in the September 2012 quarter driven by infrastructure and residential work.

#### *Labour market outlook*

Taking this global and domestic situation into account, the Ministry forecasts that employment will continue to increase gradually over the next few years.

Strong employment growth is expected in the primary processing, construction and utilities sectors.

Employment growth will be strongest for highly skilled workers, but opportunities for lower skilled workers are expected to account for around a third of total employment growth over 2013-15. The food processing, retail, accommodation, agriculture and construction sectors are expected to create most of these opportunities.

The labour force participation rate is expected to continue increasing over the next 3 years (see Figure 2), driven mainly by a continuation to increasing participation of older workers.

**Figure 2: Labour market outlook**

Indicator	2012	2013f	2014f	2015f
Annual employment growth	+1.4%	+1.8%	+2.1%	+1.6%
Participation rate	68.8%	68.8%	69.3%	69.5%
Unemployment rate	6.7%	6.8%	5.9%	5.5%

Source: MBIE Labour; Statistics New Zealand

The modest growth in employment, and the rise in participation, is expected to keep pressure on the unemployment rate, which we forecast to drop to 6.8 percent by March 2013. As employment growth strengthens in 2014, the unemployment rate is expected to fall further, to 5.5 percent in March 2015 (see Figure 2).

## Employment trends

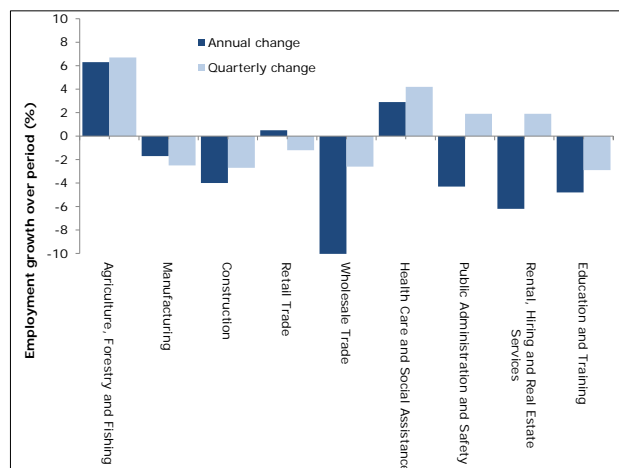
The September 2012 quarter Household Labour Force Survey (HLFS) portrayed a weaker labour market, contrary to market expectations. The unemployment rate rose 0.5 percentage points to 7.3 percent during the quarter. The employment rate fell by 0.4 percentage points to 63.4 percent. Employment has remained at a similar level to a year ago (2,218,000 as at September 2012), which was not enough to keep up with population growth.

Next we look a bit more closely at what's happening with employment, in particular by industry, region and self-employment.

### Industry

Employment declined in most of industries over the past year (see Figure 3).

**Figure 3: Changes in employment by industry**



Source: Statistics New Zealand; MBIE Labour

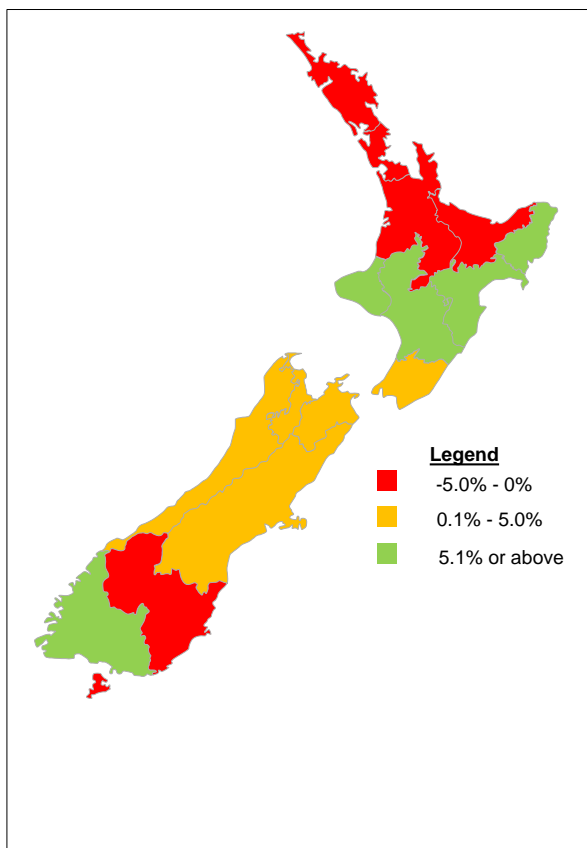
The exceptions were agriculture, forestry and fishing (up 6.3 percent), and healthcare and social assistance (up 2.9 percent).

The largest annual falls in employment were in wholesale trade (12,700), education and training (9,900), and construction (7,000).

### Regions

Despite the small national increase in employment (0.1 percent) over the last year, differences across regions were noticeable. Taranaki, Manawatu/Wanganui and Gisborne/Hawke's Bay employment grew strongly over the year to September 2012, while employment contracted in Auckland, Waikato, Otago and Bay of Plenty regions (see Figure 4).

**Figure 4: Regional differences in employment growth over the past year**

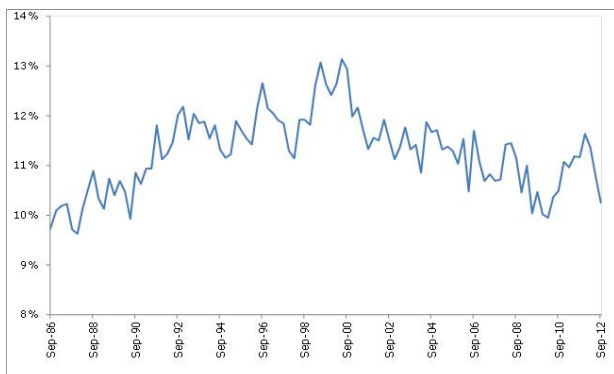


Source: Statistics New Zealand; MBIE Labour

### Self-employment

The Ministry's seasonal adjustment shows that the main contributor to the fall in employment in the September 2012 quarter was a fall in self-employment of 10,500 (4.4 percent). At September 2012, self-employment was 10.3 percent of total employment, a level not seen since the first quarter of 2010, and twenty years previously. Self-employment is generally high in sectors such as agriculture and construction.

**Figure 5: Self-employment as a percentage of total employment**



Source: Statistics New Zealand

Figure 5 shows that self-employment as a percentage of total employment has fallen sharply over the past three quarters. It has now fallen to its lowest point since the

first quarter of 2010, following the 2008 global financial crisis. Such a low point was previously seen in the second quarter of 1990. While further falls in the percentage of self-employed are possible in the future, this is less likely given its current low point. This is supported by the prevalence of self-employment in industries that are expected to grow in the next few years, including agriculture and construction, as discussed earlier.

### Labour supply and participation

The participation rate tells us about the availability of New Zealanders for work. It is the proportion of the working age population that is available to participate in the labour market.

In the September 2012 quarter, the participation rate was 68.4 percent, unchanged from the previous quarter and from a year ago. There was some movement among certain demographics. Understanding these will be influential in determining future overall participation rates.

The participation rate of those aged 65+ continued a gradual rise that has been evident over the past 12 years. This group represents an important source of future labour supply, since by continuing to work, their skills and expertise are retained in the labour force.

Since 2008, the participation rate 15-19 year olds has been falling and now appears to be stabilising at its present level. However, nearly two-thirds of 15-19 year olds who are in the labour force, whether they are employed or unemployed, are students. So participation rates and unemployment rates for young people are often poor indicators of the number of people who are at risk of poor long-term outcomes.

For youth attachment to the labour market, it's often better to look at the NEET rate. This is the proportion of young people not in employment, education or training.

While the NEET rate has declined since the recession, it remains slightly above trend. The seasonally adjusted NEET rate increased from 13.1 percent to 13.4 percent over the quarter. Since the December 2010 quarter, the youth NEET rate has been relatively stable, between 13.1 and 13.5 percent. Among 15-24 year olds, in the year to September 2012, Māori youth (22.7 percent) had the highest NEET rate, ahead of Pacific (18.7 percent) and European youth (11.7 percent).

### Matching supply and demand

A mismatch of labour and skills occurs when there is an imbalance between the demand for and supply of jobs. It is unrealistic to assume that there will be no labour and skills mismatches in the labour market. Labour and skills mismatches can prevail in a particular sector or region.

Labour and skills mismatches can manifest in the form of labour or skills shortages, skills gaps, over-qualification

or under-qualification. A number of indicators point to imbalances within the New Zealand labour market. These are:

- unemployment by region
- long-term unemployment
- vacancies
- changes in wages.

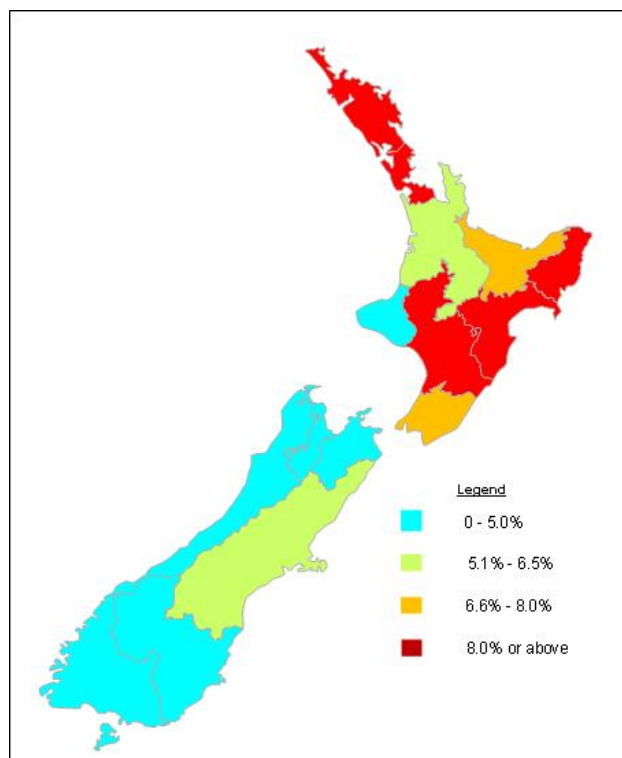
### Unemployment by region

The number of unemployed people reflects the extent to which the number of workers exceeds the number of job openings in a particular region.

As an example, Canterbury has seen a shortage of labour and skills in the construction and engineering area due to the rebuild work. Geographical immobility of labour and skills has also contributed to the extent of skills mismatches there.

Figure 6 shows the variation in unemployment by region. Northland had the highest unemployment rate in the country in the September 2012 quarter, while Tasman/Nelson/Marlborough/West Coast and Taranaki had the lowest.

**Figure 6: Stark regional differences in unemployment**



Source: MBIE Labour

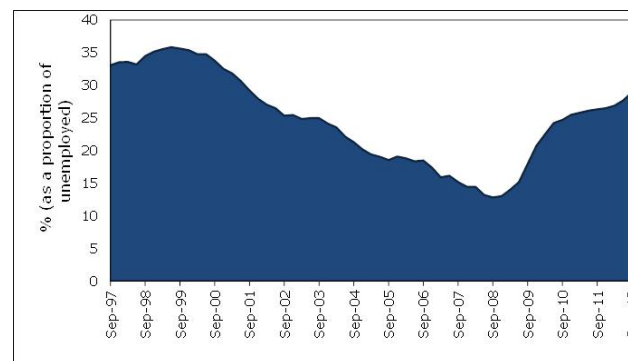
### Long-term unemployment

The incidence of long-term unemployment (that is those unemployed for 26 weeks or more) can be a sign of mismatches.

Long-term unemployment can represent on-going skills mismatches and are a concern from a labour market perspective, since people who have been out of work for long periods often have considerable difficulty to finding jobs as the economy grows.

Figure 7 shows the current incidence of long-term unemployment is lower than in the recovery from the 1998/99 recession. Although it appeared to have plateaued in 2010 and 2011, there has been a rise over the past few quarters that we will continue to monitor.

**Figure 7: Incidence of long-term unemployment (annual average)**



Source: Statistics New Zealand; MBIE Labour

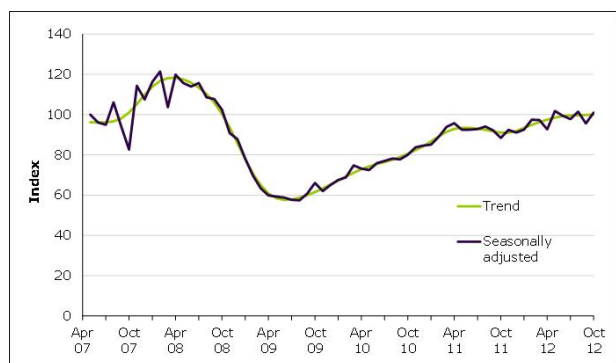
### Vacancies

Vacancies indicate the availability of jobs either due to a change in the number of jobs in the economy or a change in the speed of circulation between jobs.

The Ministry's Jobs Online skilled vacancy index (SVI) measures changes in skilled job vacancies advertised on the two main internet job boards - SEEK and Trade Me Jobs.

The SVI shows that skilled job vacancies increased by 5.6 percent in October, following a fall in September. Over the year to October 2012, skilled vacancies increased by 14.2 percent. Figure 8 shows two SVI series (seasonally adjusted and trend) over time.

**Figure 8: Jobs Online, Skilled Vacancy Index (SVI)**



Source: MBIE Labour

Growth varied across industry groups. The demand for skilled workers was the strongest in construction and engineering (up by 39.1 percent), followed by health and medical (up by 22.7 percent) and hospitality and tourism (up by 20.4 percent).

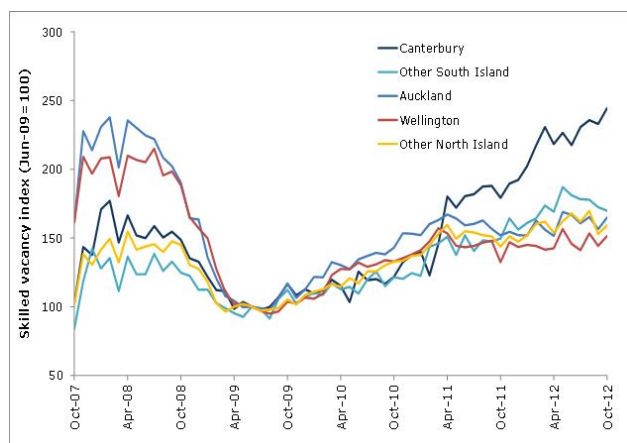
Vacancies increased across all skilled occupation groups. Technicians and trades workers had the biggest increase (up by 29.5 percent), followed by professionals (up by 11.1 percent) and managers (up by 7.2 percent).

Skilled job vacancies increased in most regions in October. The main centres had the strongest growth in skilled job vacancies, led by Auckland (up by 5.4 percent). The South Island (excluding Canterbury) was the only region that showed a fall over the month (down by 1.5 percent).

Over the year, Canterbury showed the strongest growth in skilled vacancies of any region (up by 36.5 percent), followed by Wellington (up by 14.4 percent) and the rest of the South Island (up by 13.5 percent).

Advertised online vacancies in the Canterbury region increased over the past 18 months (see Figure 9). However, it is not clear how much of the increase is due to new jobs and how much is due to turnover in the region as a result of people leaving the region.

**Figure 9: Regional divergence in vacancies since earthquakes**



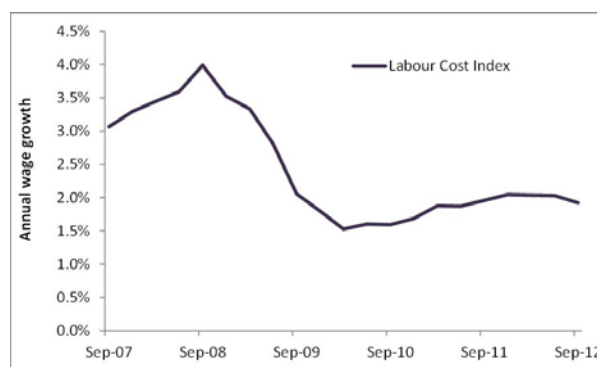
Source: MBIE Labour

## Changes in wages

Changes in wages also point to labour and skills mismatches to a certain extent. For example, a worker who is over-qualified is likely to receive a lower income than what he or she could earn at the right educational and skill level. Under-utilisation of skills can have a negative effect on wages. Conversely, in employers are struggling to find the right skills, wages will increase to reflect this scarcity.

Figure 10 summaries wages over time. Annual wage growth declined as a result of the 2008-2009 recession but picked up after 2009. Wage growth continued to gradually recover in the September 2012 quarter, with the Labour Cost Index (LCI) rising by 1.9 percent in the year.

**Figure 10: Wage Growth**



Source: Statistics New Zealand

This subdued wage inflation continues to suggest that signs of emerging skills shortages have not materialised into upward pressure on wages yet.

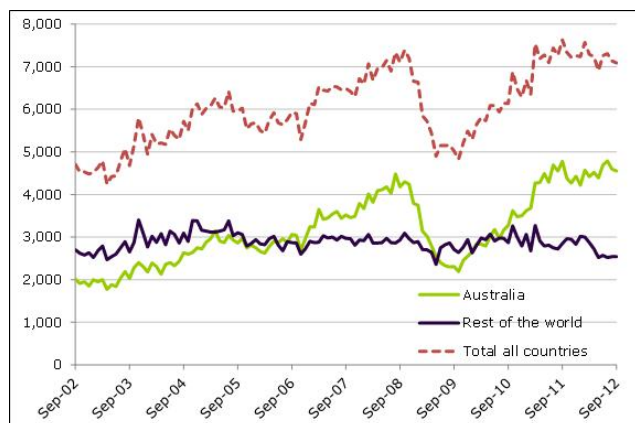
## Migration to Australia

The annual net migration loss from New Zealand to the rest of the world continues, driven by rising departures. Figures show there were 83,600 arrivals and 86,900 departures over the year to September 2012, resulting in a net loss of 3,300 people. There has been an annual net loss since the year to October 2011.

Australia has been the most common destination for permanent and long-term migration (PLT) departures. About 60 percent of departures over the past year have been to Australia. PLT departures from New Zealand to Australia have been gradually increasing over the past 10 years (see Figure 11). There was a sharp fall when the global financial crisis hit in 2008, but departures have since returned to their previous trend and have been relatively stable for the past 12 months (as at September 2012).



**Figure 11: Monthly PLT departures to Australia and other countries, 2002 - 2012, seasonally adjusted**



Source: Statistics New Zealand

PLT departures to Australia follow a cyclical pattern reflecting global Australasian economic trends. Relative to the size of New Zealand's population, departures to Australia were much higher at the end of the 1970s (1.4 percent of the New Zealand population) than they are now (1.2 percent of the New Zealand population).

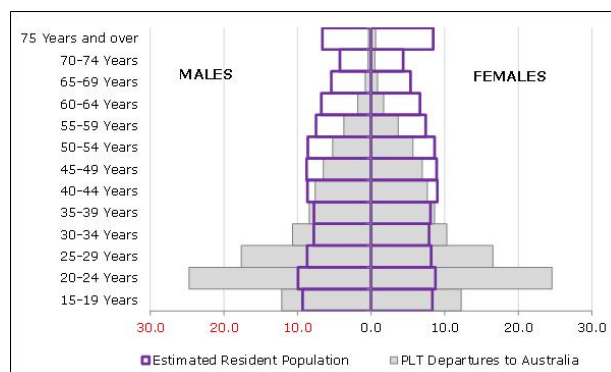
There was a seasonally adjusted net loss of 3,200 people to Australia in September. The monthly net loss of migrants to Australia has remained fairly steady since March 2011, ranging between 3,000 and 3,700.

The majority of people departing permanently for Australia in the working-age population tend to be relatively young and they come from right across New Zealand. More than half of these people are aged between 15-29 years, with approximately 40 percent aged between 20-29 years.

Slightly more males have moved permanently to Australia but the share is roughly similar for both males and females.

The population pyramid in Figure 12 compares the demographic structure of PLT departures to Australia with the estimated New Zealand working-age population. While the New Zealand working-age population is generally older (more than half are aged over 40 years), those departing to Australia permanently tend to be younger.

**Figure 12: Age/sex structure of the New Zealand working-age population\* and PLT departures to Australia (year to September 2012)**



Source: Statistics New Zealand.

\*Estimated population estimates as at June 2012.

The Ministry forecasts PLT departures to Australia to remain high for the next few quarters. Arrivals from the rest of the world are expected to increase, but not by enough to offset the steady high level of departures. Thus, the Ministry forecasts annual net PLT migration to continue to be negative until 2014.

## Canterbury labour market

Canterbury has been an important area to monitor over the past 2 years. We monitor a broad range of indicators, but three key areas that have recently seen new data are

- population estimates
- Business Demography Statistics
- Household Labour Force Survey.

### *Change in the Canterbury population*

Statistics New Zealand released its annual regional population estimates in October 2012. These show that in the year to June 2012:

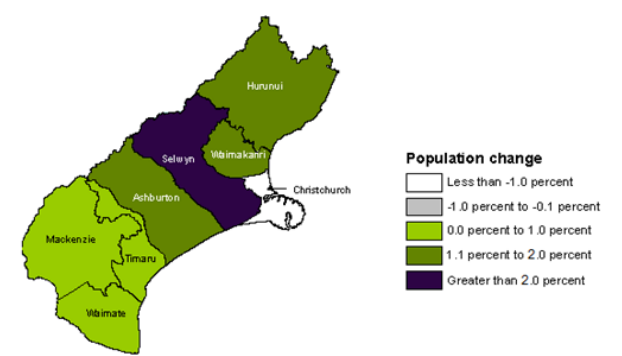
- Christchurch's population fell by 4,600 (1.2 percent), while Selwyn district experienced the largest population growth for any territorial authority, expanding by 2.9 percent in the year
- Canterbury region's population decreased by 1,800 people (0.3 percent)
- the population loss in Canterbury and Christchurch is slowing.

In the past two years, Canterbury's population aged under 19 has fallen by 5.7 percent while the population aged 35-49 has fallen by 5.5 percent. This suggests an outflow of children and their parents from the region over the period.

Interestingly, the older population seems to be staying put, with the population aged 65+ increasing by 5.3 percent over the past two years.

While these are 'point-in-time' estimates, the following graphic shows an interesting population dynamic in Canterbury. Many displaced Christchurch residents are potentially relocating within Canterbury, but the net loss from Christchurch has dragged the region's population down.

**Figure 13: Population change in Canterbury territorial authority areas, year ended 30 June 2012**



Source: Adapted from Subnational Population Estimates: At 30 June 2012, Statistics New Zealand

### *The changing business landscape*

The latest Business Demography statistics provide an update on the changing landscape in Canterbury. These figures show a general resilience following the earthquakes. The number of business locations in the region has fallen by 1.5 percent since 2011. This decrease was driven by the retail trade (down 6.4 percent), and accommodation and food services (down 8.3 percent) industries.

The number of business locations in Christchurch has fallen by 2.5 percent since 2011. There are fewer cafes, bars, and accommodation operators but more construction-related and insurance businesses in Christchurch.

As expected, the Central Business District (CBD) was the hardest hit, with 34.6 percent fewer business locations in 2012.

The number of business locations in the eastern suburbs of Christchurch has fallen by 1.7 percent since 2011. These suburbs sustained more damage and disruption compared with suburbs in the west. In contrast, the western suburbs had 6.1 percent more business locations at February 2012 (21,690). This suggests that some businesses were able to reopen in other parts of Christchurch.

### *Labour market outcomes*

The Canterbury labour market is showing some signs of life. In the year to September 2012, there was a lift in both the employment rate and the participation rate, while unemployment fell in the region.

Over the year, employment grew by 2.9 percent (8,800 people) in Canterbury. This growth was driven by a 17.9 percent (11,600 people) rise in part-time employment, while full-time employment fell by 1.2 percent (2,800 people).

By industry, the largest contributor was jobs in professional, scientific, technical, administrative and support services (up 9,000 people or 26.5 percent). Employment in transport, postal and warehousing grew by 3,300 people (22.9 percent) and construction grew by 2,900 people (9.8 percent).

The employment rate rose 2.8 percentage points in the year to 65.8 percent, while the participation rate rose 2.7 percentage points to 69.4 percent.

The unemployment rate fell 0.3 percentage points over the year to 5.2 percent. The number of people unemployed fell by 2.2 percent (400 people).

The HLFS showed that the working-age population fell by 7,500 people (1.5 percent) over the year, suggesting that the population loss from Canterbury is slowing.

## **Conclusions**

The labour market faces significant challenges, largely due to global uncertainties and weak growth among our trading partners. The gradual employment growth following the recession has reflected the level of economic growth and puts pressure on the unemployment rate.

However, people have remained attached to the labour market, with participation rates being high throughout the recession and since. Participation is forecast to continue rising.

The Canterbury rebuild is expected to have a significant impact on economic growth and the labour market over the next few years.

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- Statistics New Zealand** (2012). "Subnational Population Estimates: At 30 June 2012". Retrieved from [http://www.stats.govt.nz/browse\\_for\\_stats/population/estimates\\_and\\_projections/SubnationalPopulationEstimates\\_HOTPYe30Jun12.aspx](http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/SubnationalPopulationEstimates_HOTPYe30Jun12.aspx).