



THE NEW ZEALAND LABOUR MARKET: RECENT TRENDS AND FUTURE PROSPECTS

Duncan Melville

Labour Market Policy Group, Department of Labour

Abstract

This paper presents information on past trends in the labour market since the mid 1980's and provides an outlook into the first years of the next century. Trends disaggregated by gender, ethnicity and industry are considered.

Keywords: *employment rate, unemployment rate, labour force participation rate, employment growth, real wage growth, regional, ethnic and gender differences*

This paper is intended to set the scene for the Conference². It will describe much that has happened in the labour market but explain little. I will leave that task to the other presenters here today and tomorrow. I will then use my crystal ball to look briefly at the first few years of the new millennium.

Before discussing the trends of recent years it is useful to see where we are today and where we have been in recent years. Table 1 below shows three indicators for the aggregate labour market; the employment rate³ (the ratio of employment to the population of working age), the unemployment rate, and the participation rate. It also shows the unemployment rates of some labour market groups I will discuss further later on.

Comparing the data for the latest available quarter, September 1998, with that 6 and 12 years ago indicates that labour market performance was worse in 1992 than in 1986 - lower employment rate, lower participation rate and higher

unemployment rate; and that in the last 6 years performance has improved - an increase in the employment rate, and the participation rate and a fall in the unemployment rate. When we look at aggregate trends below in more detail this "tale of two periods" will emerge as a strong theme.

Comparing unemployment rates is the most popular way of looking at the relative labour market performance of different labour market groups. Table 1 suggests that men's and women's fortunes in the labour market has not been that different as their unemployment rates do not differ that much, although the recession of the early 1990's appears to have had a more detrimental effect on men than women. We will see later on that the full story is a bit more complicated than this, but women do appear to have made progress in the labour market in the last decade or so.

In contrast to differences in unemployment by gender, differences by ethnic origin are more marked. The gap between Pakeha and non-Pakeha unemployment rates wid-

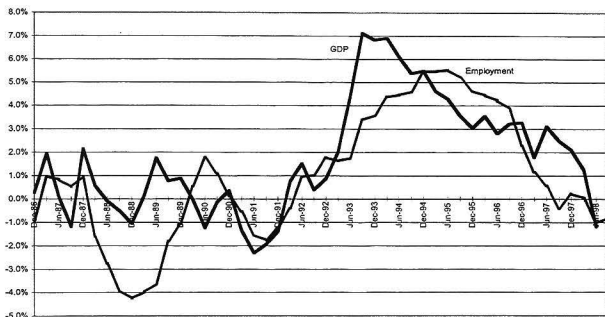
Table 1. Summary labour market indicators

	September 1986	September 1992	September 1998
Employment Rate	63.7%	56.6%	60.2%
Unemployment Rate	4.0%	10.3%	7.4%
Participation Rate	66.2%	63.1%	65.0%
Disaggregated Unemployment Rates			
Men	3.5%	11.0%	7.7%
Women	4.6%	9.4%	7.1%
Maori	10.0%	25.2%	17.8%
Pacific Island	6.6%	25.2%	15.4%
European	3.1%	7.8%	5.4%
Youth (Age 15-24)	8.5%	17.8%	13.7%

Source: Household Labour Force Survey

Note: The disaggregated unemployment rates are not seasonally adjusted.

Figure 1. Annual GDP and employment growth (annual percentage change)



Source: Statistics New Zealand

ened very significantly between 1986 and 1992. While this gap fell between 1992 and 1998 it was still much greater in 1998 than it had been in 1986. Similarly for young people (aged 15-24 years) while unemployment rates have improved since 1992 the gap compared to other age groups is bigger now than 12 years ago.

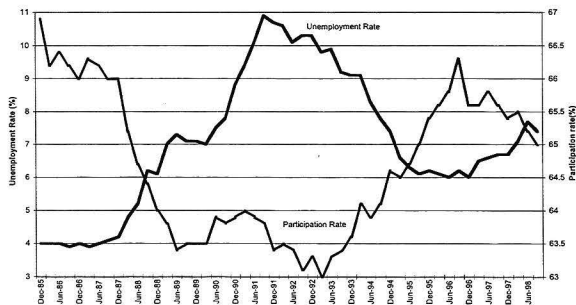
Aggregate labour market trends

Figure 1 above shows annual growth in total employment and output since December 1986. In the 6 years to December 1991 employment fell by 6.3% (or by 8.6% in terms of full-time equivalents)⁴, a fall in employment not seen in New Zealand since the depression of the 1930's. Over the same period output grew by only 1.2% in total so on average over this period annual GDP growth was only 0.2%.

This poor performance is usually attributed to some combination of two factors: the wide spread economic reforms which, at least initially, led to a "shakeout" of employment, particularly in the state sector; and the process of reducing inflation which saw CPI based inflation fall from a peak of 19% in June 1987 to under 1% by December 1991. Figure 2 below shows, not surprisingly given these trends in GDP and employment, that the unemployment rate more than doubled from 4.0% in the mid-1980's to a peak of 10.9% in September 1991, while the participation rate declined from 66.9% in December 1985 to 63.0% in March 1993.

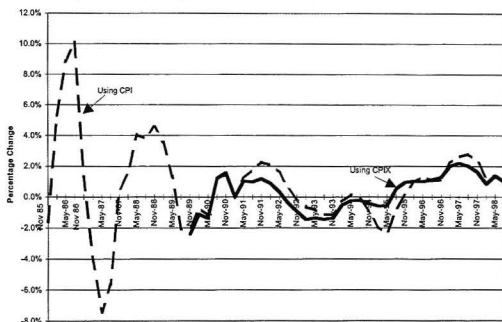
Figure 3 indicates that real wage growth was very volatile in the mid to late 1980's. Overall, however, in the 6 years to November 1991 real wages grew by 1.2% on average per

Figure 2. Unemployment rate and participation rate



Source: Household Labour Force Survey

Figure 3. Real wage growth (using CPIX and CPI)



Source: Statistics New Zealand

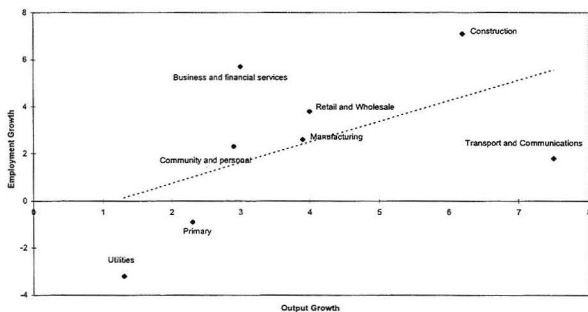
annum. This is a significant increase and, given the poor unemployment performance over this period, suggests that unemployment did not act to reduce wage pressures in this period. The failure of wages to adjust probably contributed to the increase in unemployment in response to stagnant output, experienced at this time.

In contrast, following the 1991 recession and the passage of some key economic reforms, including the Employment Contracts Act, the New Zealand economy enjoyed a period of very rapid economic growth. Economic growth peaked at 7.2% per annum in September 1993 but remained above 3% until the middle of 1996. During this period of fast economic growth total employment grew very rapidly by 19% (or by 18% in terms of full-time equivalent em-

ployment) between December 1991 and December 1996. Unemployment also fell rapidly during this period down from 10.9% in September 1991 to 6.0% in December 1996. The participation rate also increased as the economy and employment expanded at a rapid pace. Despite this period of rapid employment and output growth real wages only rose very modestly, rising by only 0.2% on average per annum in the 6 years to November 1997. Clearly however real wage growth was trending upwards from mid-1995 as the labour market tightened - reaching rates of over 2% per annum by 1997.

In the last couple of years the economy has slowed and in the first half of 1998 the economy was in recession with GDP falling by 1.9% over that period. This slow-down has

Figure 4. Output and employment growth by industry (annual growth rates 1992-1998)



Source: Statistics New Zealand

Table 2. Industry shares of employment

Year to:	September 1986	September 1992	September 1998
Primary	11.3%	11.2%	8.8%
Manufacturing	20.8%	16.5%	16.7%
Utilities and Construction	7.7%	6.1%	7.2%
Services	60.2%	66.3%	67.4%

Source: Household Labour Force Survey

been driven by a number of factors; the Asian crisis and consequential uncertainty in the world financial markets, a drought in key rural areas and the lagged effects of earlier tightening in monetary policy.

In response to this slowdown in economic activity employment growth has declined in the recent past (see Figure 1) The level of employment was roughly flat over the period December 1996 to March 1998. In the June 1998 quarter employment fell by 0.8%, the largest quarterly fall since March 1989. In the latest September quarter employment remained unchanged and the unemployment rate actually fell. A result which surprised everyone including myself. Given this slow down in employment growth it is not unexpected that the unemployment rate has been trending upward since December 1996 reaching 7.4% in September 1998. Real wage growth has also moderated to around 1% on latest figures.

Industry trends

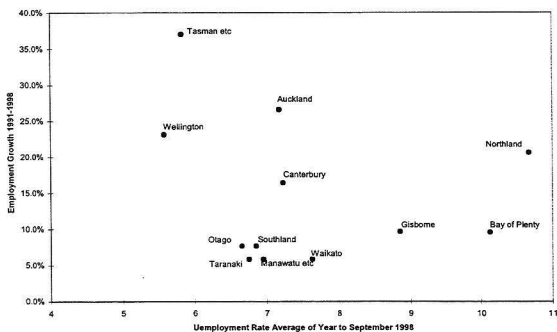
The increasing size of the service sector is a trend seen across most OECD countries - New Zealand is no exception (See table 2). Employment growth has been highest in the service sector over the last 12 years⁵. Consequently, the proportion of employment in the service sector of the

economy has increased over the last decade, while the relative shares of other sectors have fallen.

Figure 4 shows the growth in industry GDP and employment at a more disaggregated level for the last 6 years. Clearly industries that experience higher rates of economic activity have this matched by higher rates of employment growth (this can be seen by the dotted best fit line in figure 4). There has been a high degree of variation in employment growth across industries in the last 6 years. Construction and Business and Financial Services have displayed the fastest employment growth.

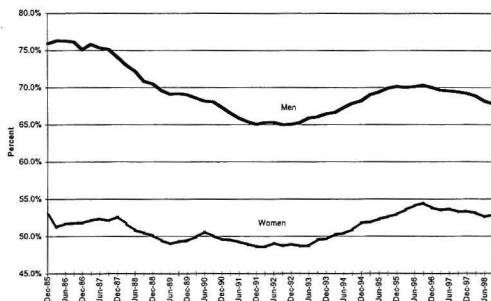
Construction activity was boosted by strong demand for housing reflected in strong house price inflation driven in part by strong net immigration to New Zealand which peaked at nearly 31,000 in the year to May 1996. Since 1997 declining net migration, which turned negative in 1998 has helped to reduce construction output. In the first half of 1998 building and construction employment fell in response to this down turn in sectoral activity.

The strong demand for housing also boosted the mortgage business part of Business and Financial Services. In addition, boundaries between banking and insurance companies have become increasingly blurred and allowed com-

Figure 5. Regional unemployment rates and employment growth

Source: Household Labour Force Survey

Figure 6. Employment-population ratios (men and women)



Source: Household Labour Force Survey

panies to reap benefits from economies of scale and scope in product range and service delivery.

At the other end of the spectrum employment in both the primary sectors and the utilities⁶ has declined. This partially reflects rationalisation in primary processing industries (particularly the meat industry), a trend across OECD countries of an increasing shift from primary sector and manufacturing jobs to services, and more recently weak commodity prices constraining returns in the sector. A partial explanation for the decline in employment in utilities has been the rationalisation in this industry over recent years. Local authorities have in many cases privatised their utilities. The new entities have been downsized to increase efficiency by their new owners, contracting out non-core activities.

Regional labour market outcomes

Analysis of regional labour market outcomes over time is constrained by the fact that regional labour market data from the Household Labour Force Survey is available only from June 1990 onwards. In addition given small sample sizes the quarterly data can display considerable 'noise'. Hence

Figure 5 plots average regional unemployment rates in the year to September 1998 against regional employment growth between the year to September 1991 and the year to September 1998. Not surprisingly regions that enjoyed relatively more employment growth over these years also tended to enjoy a relatively low unemployment rate in the year to September 1998.

Differing regional performance has to some extent reflected the regions' industrial structures. For example, Wellington and Auckland, both strong performers in terms of employment growth, have benefited from being dependent on relatively fast growing service industries compared to other regions. However Northland and Tasman etc., also strong performers in terms of employment growth, are largely agricultural / tourism based regions.

Gender differences in the labour market

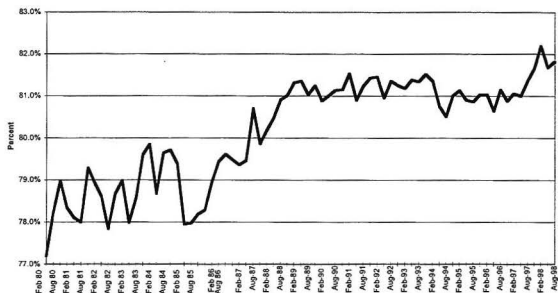
There has been significant advancement for women relative to men in the labour market over the last decade or so. Female labour force participation rates have risen while men's have fallen, but female unemployment rates have

Table 3. Labour market outcomes by gender

	Female			Male		
	1986	1992	1998	1986	1992	1998
September quarter						
Employment Rate (%)	51.8	48.7	52.9	76.2	65.0	67.8
Labour force participation (%)	54.2	53.7	57.0	78.7	73.0	73.5
Unemployment rate (%)	4.6	9.4	7.1	3.4	11.0	7.7
Ratio female/male real ordinary time pay	0.796	0.813	0.818	-	-	-

Source: HLFS, QES, Statistics New Zealand.

Figure 7. Pay of woman as a percentage of men's pay



Source: Quarterly Employment Survey

remained similar to male unemployment rates for most of the last 12 years.

Employment of women has grown considerably faster than the employment of men since 1986 - by 21% compared to just 4% for men. (In terms of full-time equivalents female employment has risen by 17% compared to 2% for male employment since 1986). In consequence the employment rate of women is now higher than it was 12 years ago while the male employment rate is currently still below the levels achieved 12 years ago. Figure 6 below indicates that in line with aggregate labour market trends the employment rate for both men and women fell between the mid 1980's and the early 1990's and then rose up until late 1996. As the economy has weakened recently these rates have declined. The gap between the employment rate of men and women has also narrowed very significantly. In the mid 1980's the employment rate was almost 25% higher for men compared to women; currently this gap is around 15%.

The gender pay gap between men's and women's earnings has also narrowed (see Figure 7). Between 1985 and 1989 women's ordinary time hourly earnings as a percentage of

men's increased from 78% to 81%. Since then this ratio seems to have remained at around 81% although in the last year the gender pay gap may have closed somewhat with an increase in this ratio to 82%.

Part of the explanation for this relative improvement in female labour market performance is that a higher proportion of women are going on to tertiary levels of education. Rising participation in higher levels of education increases individual's human capital. This increase in skills/human capital increases both the likelihood of obtaining employment and the returns from employment in terms of pay. The increasing dominance of the service sector as an employer has also helped raise women's employment.

What remains a puzzle is the timing of the rise in women's relative pay between 1985 and 1989 and then the subsequent stability in women's relative pay after that date. There was no significant government intervention to promote equal pay which could explain this development. However such a sudden improvement without government intervention is not without precedent. Gary Becker has noted that women's relative pay in the USA was stuck at around 60%

Table 4. Pakeha, Maori and Pacific Island labour market differences

Year to Sept	Pakeha			Maori			Pacific Island		
	1986	1992	1998	1986	1992	1998	1986	1992	1998
Labour force participation (%)	66.1	63.9	66.5	67.9	59.3	62.4	70.2	60.6	62.7
Unemployment rate (%)	3.3	7.9	5.3	10.1	25.8	17.6	7.2	26.7	15.4
Employment rate (%)	63.5	58.3	62.9	59.9	43.5	49.3	64.4	44.6	52.0

Source: HLF5, Statistics New Zealand.

of men's in the 1960's and 1970's before increasing to over 70% during the 1980's - a decade ironically dominated by the Reagan / Bush Republican administrations which staunchly opposed hiring quotas, comparable worth regulation of pay, and most affirmative action programmes.

Ethnicity and the labour market

The labour market outcomes of Maori and Pacific Island peoples remain a concern. The Maori and Pacific Island populations currently have lower employment rates, higher rates of unemployment, and lower rates of labour force participation than the European/Pakeha population. (See Table 4 and Figure 8)

Furthermore the gap in labour market performance between, on the one hand Maori and Pacific Island peoples, and on the other Pakeha, has widened in the last 12 years. In December 1985, the first date for which HLFS data is available, the employment rate for all three ethnic groups was not that different. In the 6 years to September 1992 the employment rate of Maori and Pacific Island peoples fell by 16.4% points and 19.8% points respectively. Over the same period the employment rate for Pakeha fell by only 5.2% points. While in the 6 years to September 1998 the employment rate for Maori and Pacific Islands peoples has increased, up by 5.8% points and 7.4% points respectively compared to 4.6% points for Pakeha. However the difference between the employment rate of these two groups compared to Pakeha is still very significant despite the modest catch up experienced since the early 1990's. The relative deterioration in the labour market performance of Maori and Pacific Island peoples compared to Pakeha contrasts with the progress made by women in the labour market compared to men.

The youth labour market

Youth are defined as those aged 15-24 years. The trends in

youth labour market outcomes have been a declining participation rate and employment rate, and an unemployment rate that remains persistently higher than that for workers in general (see Figure 9).

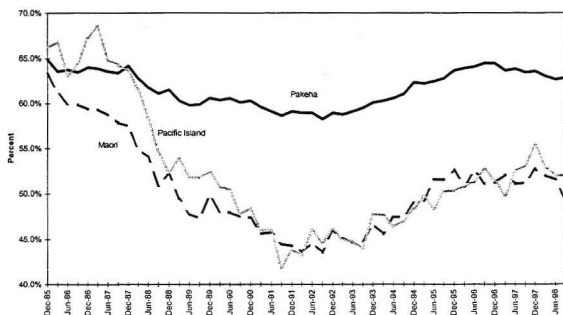
The position of young people also seems to have worsened relative to that of all workers. In the mid-1980's the unemployment rate of teenagers and young adults was about 7% points and 1-1½% points higher than the overall rate respectively. By the early 1990's this differential had grown to 11-12% for teenagers and about 7% for young adults. With the recovery in the labour market of the 1990's this differential has fallen back somewhat to about 10% for teenagers and around 4% for young adults.

Looking to the future

After the recession of the first half of 1998 (two quarters of negative output growth) the economy is only expected to show modest growth in the rest of 1998 and early 1999. A major catalyst of the improvement in economic growth is expected to be looser monetary conditions. Conditions have eased significantly from mid-1998 with interest rates falling to very low levels historically, and with the exchange rate substantially lower than its 8 year peak of early 1997.

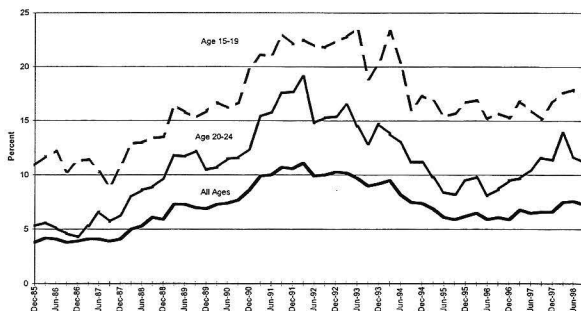
Low interest rates are expected to boost business and consumer confidence and stimulate investment and private consumption. The lower exchange rate will help stimulate export growth, although this will be constrained by weak world growth in 1999. According to latest Consensus forecasts, growth in our top 10 trading partners will be only 1.4% in 1999. By comparison, between 1993 and 1997 top 10 trading partner growth ranged between 3 and 4½%. Overall forecasters expect growth in the year to March 1999 of -1.0%, followed by an increase to 2.6% in the year to March 2000. In the year to March 2001 the economy is expected to grow strongly - by 3.8%.

Figure 8. Employment population ratios by ethnicity



Source: Household Labour Force Survey

Figure 9. Youth and total unemployment rates



Source: HLFS, Statistics New Zealand.

Given this outlook for economic activity, employment growth is generally expected to remain very weak; if not negative, through until early 1999, before picking up moderately in the second half of the year. Business opinion surveys show that a larger number of firms are planning to shed staff rather than hire staff in the near term. Given this weak employment outlook, the unemployment rate is expected to increase until early to mid 1999. The average of the latest economic forecasts indicate that forecasters on average expect the unemployment rate to rise to 8.4 percent in the March 1999 quarter before falling back to 8.0% and 7.3% in March 2000 and March 2001 respectively.

However, note that all but one of these forecasts were produced prior to the release of the surprising September 1998 labour market data, which showed a fall in the unemployment rate to 7.4% when the consensus amongst private sector economists was that the unemployment rate was expected to increase to around 8%. I expect forecasters to reduce their projections for unemployment in the light of this data in their next published forecasts.

No forecasting organisation attempts to project trends for different labour market groups such as men and women or

Pakeha and Maori, so discussion of the outlook for these must be impressionistic. Women have in recent years reduced the gap between themselves and men in terms of their propensity to be in employment and their relative wages. There seems no reason to suppose that this progress will not continue. Maori, Pacific Island peoples and young people's labour market performance has improved since the early 1990's, but this follows a period in the late 1980's and early 1990's when their labour market performance deteriorated very significantly. Assuming the economy achieves robust economic growth in the early years of the next century the relative position of these groups is expected to improve further, but significant labour market disparities will still exist.

Conclusion

Between the mid-1980's and the early 1990's labour market performance in New Zealand was very poor. Employment and labour force participation rates fell very significantly and the unemployment rate rose to nearly 11%. This deterioration particularly impacted on some groups such as Maori, Pacific Island peoples and young people. Since the early 1990's, at least until the recent downturn in the

Table 5. Average economic and labour market forecasts

Year ended March	1998 (a)	1999 (f)	2000 (f)	2001 (f)
<i>a=actual, f=forecast</i>				
GDP annual average % change	2.3	-0.8	2.6	3.8
Unemployment rate %	7.1	8.4	8.0	7.3

Source: The latest forecasts from the Reserve Bank, Treasury, ANZ, BNZ, Deutsche Bank, National Bank, NZIER, WestpacTrust and Infometrics

economy, labour market performance has improved. Up to the end of 1996, employment grew strongly and the unemployment rate fell back to reach 6.0% in December 1996. Over this period there was some recovery in the labour market position of the groups that had been particularly affected by the deterioration of the previous years. More recently as the economy has weakened the labour market situation has deteriorated. The position of women relative to men has improved over the last decade or so. The gap between the propensity for women and men to be in employment, as measured by employment rate, has narrowed very significantly. The gender pay gap has also narrowed since the mid-1980's.

Future research

One question that follows from this analysis is to what extent has the improvement in the labour market in the 1990's, compared to the late 1980's, been a product of the labour market reforms that occurred in 1991, i.e. the Employment Contracts Act and the extensive changes to welfare support. One recent study by Tim Maloney has concluded that the welfare changes and the ECA were responsible for between 38% and 56% of the growth in employment between the first half of 1991 and the first half of 1996. The rest due to 'other factors', presumably in the main the strong cyclical rebound in the economy after the recession of 1991. However an alternative hypothesis is that the labour market improvement seen since 1991 is simply a product of the recovery in the economy seen since then. For example, as Brian Easton said in his paper to the 7th LEW conference two years ago which discussed previous work by Tim Maloney on the ECA, "the main factors determining employment and wage rates over the first two post-ECA years were macroeconomic variables like output and relative prices". I am sure this debate will continue to resonate through this conference and on into future similar gatherings.

Notes

- 1 The views expressed in this paper are those of the author alone and do not necessarily reflect the views of the Department of Labour.
- 2 This paper draws on a draft of Bururu R, Irwin D and Melville D. 1998, Labour Market Trends and Outlook. Forthcoming in the Labour Market Bulletin.
- 3 Since the employment rate is equal (as an identity) to 1 minus the unemployment rate multiplied by the participation rate movements in the rate reflect both changes in unemployment and labour market participation.
- 4 For the purposes of calculating full-time equivalents one part-time employee has been assumed equal to half a full-time employee.
- 5 The service sector here refers to wholesale and retail trade, transport, storage and communications, business and financial service, and community, social and personal services.

6 Utilities are defined as the electricity, gas and water sector.

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Author

Duncan Melville is a Labour Market Adviser in the Labour Market Policy Group, Department of Labour, PO Box 3705, Wellington
E-mail: duncan.melville@lmpg.dol.govt.nz