

Short-term Employment Prospects: 2013 – 2016

June 2013



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
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SHORT-TERM EMPLOYMENT PROSPECTS: 2013-2016

Purpose

Employment prospects over the next 3 years to March 2016¹ are presented in this report which is an update on the employment prospects to March 2015 assessed in late 2012. These employment forecasts will be used to inform the Ministry's advice relating to immigration priorities, and priority setting for tertiary education and industry training over the next 2-3 years. The forecasts suggest overall employment demand rising in response to stronger economic growth associated mainly with the Canterbury rebuild over the next three years and peaking in the 2015 year to March.

The Ministry uses a short-term forecasting model that draws on the latest macroeconomic forecasts by the Treasury, to provide more detailed information on the labour market covering employment in broad industries, occupations or high-level grouping of skills and for regions.²

Key points

- Employment will increase gradually, growing by 1.3% (or 28,400) between 2013 and 2014 year to March, by 2.3% (or 52,300) between 2014 and 2015 year to March and by 2.1% (or 49,500) between 2015 and 2016 year to March
- The unemployment rate is expected to trend down slowly, falling to 6.0% by March quarter 2014 down to 5.7% by March quarter 2015 and decline below 5% by March quarter 2016
- Strong employment growth is expected in the construction and utilities industries over the next 3 years while the prospects for employment in other industries vary over time
- Growth in demand for employment in highly skilled jobs (that is, managers and professionals across a number of areas) will be consistently high over the forecast period, accounting for about 50% of the overall employment growth
- Opportunities for lower-skilled workers are expected to account for about 35% of the employment growth over the period. The food processing, retailing, accommodation, agriculture and construction industries are expected to create most of these opportunities

¹ All forecasts in this report are presented on a year to 31 March basis which is an average for the entire period (i.e. Annual Average Percentage Changes) and not a point-to-point change. This is done to be consistent with the Treasury's GDP growth forecasts which are also on a year to 31 March basis.

² Forecasts were completed in late May 2013 using the quarterly GDP growth and other forecasts such as the Terms of Trade, TWI, and 90-day rates associated with the Treasury's 2013 Budget Economic and Fiscal Update (16 May 2013).

- Employment growth will be strongest mainly in the Auckland and Canterbury regions
- The global economic outlook is much better than six months ago with lower downside risk. The uncertainty and concerns that the Eurozone may fall into recession have diminished. The prospects for growth in the US have strengthened while weakening somewhat in Australia and China. This could dampen New Zealand's export demand and returns, although the Canterbury rebuild will provide a strong growth stimulus for the economy.

The economic recovery is expected to be much stronger...

The 2013 budget forecast by the Treasury suggests that the economy will expand by 2.5% in the year to March 2013, by 2.4% in the year to March 2014, by 3.0% in the year to March 2015 and by 2.6% in the year to March 2016, after the Canterbury rebuild peak is reached in the 2015 year to March (Table 1).

The prospects for global economic growth strengthened during the first half of 2013. Many advanced economies have experienced some growth and concerns about sovereign debt and stability have diminished for many countries in the Eurozone even though recent growth in this region has been either negative or very small. Emerging economies, such as China and India, are still growing at a healthy rate, but this growth is 3-4% lower than their growth before the advent of the Global Financial Crisis.

The International Monetary Fund (IMF) has forecast world output to grow by 3.3% in 2013 and 4.0% in 2014 in its latest World Economic Outlook (April 2013).³ The 2014 growth forecast for the advanced economies range from 1.1% for the Euro area, 1.5% for the UK, 2.6% for New Zealand, 3.0% for the US and 3.3% for Australia, the latter down from 3.6% in 2012. The IMF growth forecast for New Zealand for 2014 at 2.6% is slightly higher than the Treasury forecast of 2.4% in the 2013 Budget released recently, which took into account the adverse impact of the recent drought. The Organisation for Economic Co-operation and Development (OECD) in its latest release of their Economic Outlook (May 2013) also has world output forecast to grow at 4.0% in 2014 but at 3.1% in 2013. In summary OECD concludes that "The global economy is strengthening gradually, but the upturn remains weak and uneven".⁴

Despite some global economic uncertainty and slow recovery, prices for New Zealand's exports remain high and businesses in New Zealand remain increasingly more confident. The likelihood of slowing economic growth amongst some trading partners like Australia and on-going global economic weakness especially in the Eurozone could impact adversely on demand and returns for New Zealand exports.

³ Source: <http://www.imf.org/external/pubs/ft/weo/2013/01/>

⁴ Source: <http://www.oecd.org/economy/outlook/global-economy-advancing-but-pace-of-recovery-varies.htm>

Table 1: GDP forecast, employment and productivity changes (March years)

Annual average percentage change	2014 (%)	2015 (%)	2016 (%)
GDP growth (Treasury)	2.4%	3.0%	2.6%
Labour Productivity (MBIE)	1.1%	0.7%	0.5%
Employment growth (MBIE)	1.3%	2.3%	2.1%

Source: The Treasury; MBIE, Short-term employment model.

The Canterbury rebuild will provide a significant boost to employment growth over the next few years. Investment associated with the rebuild has been assessed by the Treasury to be around \$40 billion which is equivalent to 20% of annual GDP. This figure is spread across residential property (\$18 billion), commercial and social assets (\$15 billion) and infrastructure (\$5 billion). Rebuilding is expected to ramp up from the second half of 2013.⁵ This will provide a powerful offset to the slowly recovering global economy and the recent drought. The precise timing of the peak rebuild remains uncertain.

...with improved performance in the labour market...

Employment grew by only 0.4% in the 2013 year to March but is expected to recover rapidly over the next three years. We expect employment to grow by 1.3% in the 2014 year to March, by 2.3% in the 2015 year to March, and by 2.1% in the 2016 year to March (see Table 1). This employment growth is associated with the rise in GDP growth forecast by the Treasury leading to an employment peak in 2015 with an associated gradual drop in productivity.

Employment is expected to increase by about 130,200 in the three years to March 2016, associated with a strong recovery in the labour market largely due to the Canterbury rebuild. This will result in employment growth peaking in the year to March 2015. This is still below the pre-recession average employment growth rate of about 2.8% (see Figure 1).

This employment growth excludes job opportunities that will arise as workers retire. The Ministry estimates that this 'additional demand' due to those retiring is likely to be about 50,000 jobs per year over the coming years.⁶ This means that while employment could rise by 28,000 in the 2014 year to March, another 50,000 people may be required to replace those retiring and detaching themselves from the labour force.

Modest growth in employment means that the unemployment rate is expected to drop gradually to 6.0% by March quarter 2014. As employment growth strengthens in 2015, the unemployment rate is expected to drop further to 5.7% by March quarter 2015 (see Figure 2).

⁵ Source: 2013 Budget Economic and Fiscal Update (May 2013)

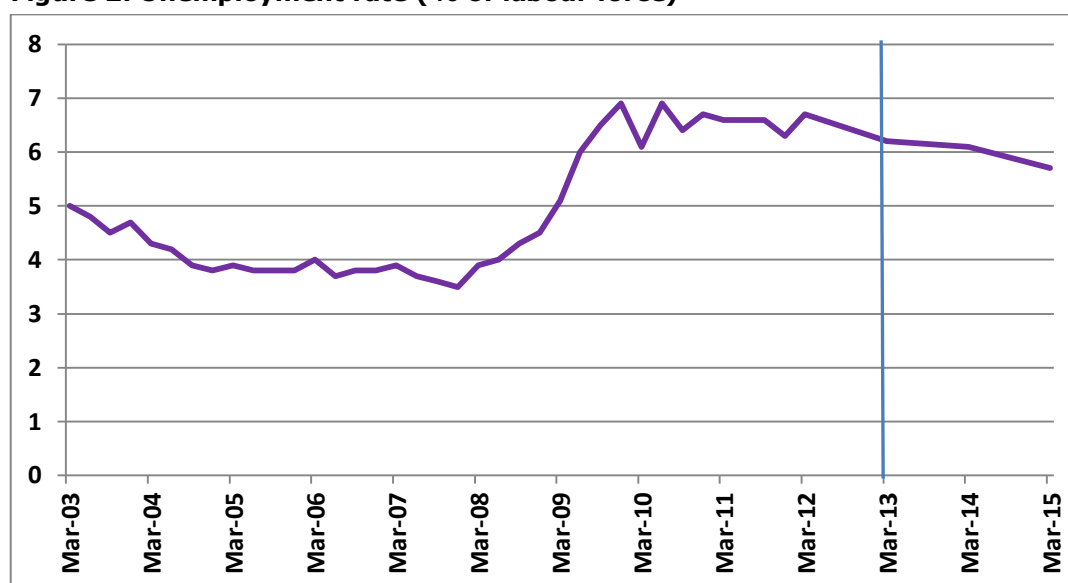
⁶ Source: <http://www.dol.govt.nz/services/LMI/tools/skillsinsight/forecasting-narratives/retirement/>

Figure 1: Employment growth (annual % change)



Source: HLFS, Statistics New Zealand; MBIE forecasts

Figure 2: Unemployment rate (% of labour force)



Source: HLFS, Statistics New Zealand; MBIE forecasts

...with strong growth in specific sectors and industries...

High employment growth is expected in construction and related activities over the 2014 and 2015 years to March (about 40% of growth). Private sector services as a whole will also account for substantial employment growth (about 30%).

Following the peak employment growth in construction in the next two years, private services will account for about 45% of the employment growth during the year to March 2016. Employment growth in private sector services is attributable more to the high level of employment in this sector rather than to the rate of growth. We expect the recent strength in the primary processing industry to

weaken over time, and the construction and property services industries to recover strongly over the forecast horizon. The Canterbury rebuild and other significant projects across New Zealand will drive the recovery in construction.

Over the forecast period, employment growth is expected to be strongest in the construction and utilities industries while the prospects for employment in other industries vary over time. Employment growth is expected across public service sector (related to health and education), private service industries (such as transport and storage and retail trade) along with primary sector, primary processing and some manufacturing industries (such as metal product and machinery and equipment manufacturing) (see Table 2).

Primary sector GDP is expected to rise strongly between 2013 and 2014 year to March accompanied by stronger employment growth. GDP growth amongst primary processing activities is not anticipated to be as strong, leading to modest employment growth during the next two years.

Table 2: Employment growth by aggregated industry, March years

Aggregated Industry	2014		2015		2016	
	(000)	(%)	(000)	(%)	(000)	(%)
Primary sector	3.2	2.0%	2.5	1.5%	1.5	0.9%
Primary processing	1.7	1.7%	1.5	1.5%	1.2	1.1%
Other manufacturing	-0.2	-0.1%	2.1	1.3%	1.8	1.2%
Construction and utilities	12.8	6.7%	17.1	8.3%	6.8	3.1%
Wholesale & Retail Trade	2.8	0.9%	5.8	1.8%	8.6	2.7%
Hospitality	1.3	1.0%	2.0	1.5%	1.9	1.4%
Transport and Storage	0.7	0.7%	2.2	2.1%	2.6	2.5%
Other Private services ⁷	2.2	0.6%	7.7	2.0%	8.9	2.2%
Core government sector	-1.2	-0.9%	1.5	1.2%	2.3	1.8%
Health and education	3.4	0.8%	7.7	1.8%	11.3	2.6%
Other public services	1.6	1.2%	2.4	1.8%	2.7	1.8%
Total	28.4	1.3%	52.3	2.3%	49.5	2.1%

Source: MBIE, Short-term employment model.

...and in highly skilled and skilled (trades) jobs...

During the three years to March 2016, employment growth in highly skilled jobs will be consistently stronger than overall employment growth (see Table 3) and will be at above 2.7% in the two years to March 2016. Employment growth through this period is expected to be weakest for semi-skilled jobs (namely clerical and some service and primary sector workers). Demand for skilled (trades) workers is strongest (2.9%) in the 2015 year to March when the Canterbury rebuild is expected to reach its peak.

The anticipated growth in highly-skilled jobs is reflected in the latest Jobs Online report which shows that skilled job vacancies increased by 11.8% in the year to April 2013. This indicates that the advertised demand for skilled workers has increased considerably over the past year which is likely to translate to employment growth in skilled jobs.

⁷ "Other Private services" include employment in the Communication services, Finance & Insurance sector, Property services and the Business services.

Table 3: Employment growth by skill level, March years

Skill-level (ANZSCO based)	2014		2015		2016	
	(000)	(%)	(000)	(%)	(000)	(%)
Highly skilled	15.8	1.7%	25.8	2.8%	25.9	2.7%
Skilled	4.3	1.7%	7.6	2.9%	4.8	1.7%
Semi-skilled	3.1	0.5%	10.3	1.6%	12.4	1.8%
Elementary skilled	5.2	1.4%	8.6	2.2%	6.4	1.6%
Total	28.4	1.3%	52.3	2.3%	49.5	2.1%

Source: MBIE, Short-term employment model and occupational/skill decomposition.

...with some opportunities for lower-skilled workers

Opportunities for lower-skilled workers (that is, semi-skilled and elementary workers) are expected to account for about 35% (or 46,000 workers) of the total employment growth of about 130,200 during the three years to March 2016.

The main industries likely to have the greatest opportunities for lower-skilled workers include food processing, retailing, accommodation, agriculture and construction.

Retirement demand will be highest among highly-skilled and skilled workers (see Table 4).

Table 4: Retirement demand by skill-level, annual average 2011-16⁸

Skill-level	2011-16	
	(000)	(%)
Highly-skilled	18	2.4%
Skilled	11	2.2%
Semi-skilled	14	2.0%
Elementary skilled	7	2.2%
Total	50	2.2%

Source: MBIE, Cohort component model using 5-yearly Census age cohorts.

Auckland and Canterbury will drive employment growth

During the three years to March 2016, employment growth in Auckland and Canterbury is expected to dominate national employment growth together accounting for about 46% of total employment growth (see Table 5).

Auckland will continue to drive national employment growth over the forecast period due to above average growth in a number of industries that are concentrated in the region, such as wholesale and retail trade, transport and storage and business services. Annual average employment growth of 1.7% in Auckland over the period will be just enough to absorb growth in the working-age

⁸ Source: <http://www.dol.govt.nz/services/LMI/tools/skillsinsight/forecasting-narratives/retirement/>

population.⁹ Labour force participation is likely to remain high, which will lead to a muted impact on the unemployment rate.

Canterbury will also contribute strongly to national employment growth as the rebuild gathers momentum during the two years to March 2015 and continuing into the year to March 2016. This is reflected in strong growth in employment across a range of skills over the three years to March 2016, with most of this in construction related activities.

Amongst the other regions, employment growth in Waikato, East Coast, and Wellington is forecast to be modest over the three years to 2016 March with average growth over this period at or below the national average.

Table 5: Employment growth by region, 2013-16 (next three) March years

Region	2013-16	
	(000)	(AAPC*)
Northland	4.3	2.0%
Auckland	36.1	1.7%
Waikato	9.0	1.9%
Taranaki	6.1	2.0%
Bay of Plenty	9.0	2.0%
East Coast	5.6	1.8%
Central	7.0	2.0%
Wellington	10.5	1.4%
Nelson	5.9	2.0%
Canterbury	23.7	2.7%
Southern	13.3	2.0%
Total	130.2	1.9%

Source: MBIE – Labour, Short-term employment model and regional decomposition.

* AAPC – Annual Average Percentage Change

Caveats

These forecasts are based on forecasts of GDP growth, Terms of Trade, TWI and 90-day rates contained in the 2013 Budget Economic and Fiscal Update released by the Treasury in May 2013. These Treasury forecasts have factored in the adverse impacts for economic growth and hence for growth in employment during the 2014 year to March arising from the widespread drought experienced over the March-April 2013 period.

⁹ Working-age population (those who are 15 years of age and over) growth in Auckland is expected to be about 1.7% p.a. for 2011-16

