



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

Short-term Employment Forecasts: 2014–2017

October 2014



Ministry of Business, Innovation and Employment (MBIE)

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Short-term employment forecasts: 2014-2017

Purpose

Employment forecasts over the 3 years to March 2017¹ are presented in this report. 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 Ministry uses a short-term forecasting model that draws on the latest macroeconomic forecasts by the Treasury, covering overall GDP growth as well as detailed forecasts of terms of trade, exchange rates and interest rates.² The detailed macroeconomic forecasts enable economic activity in broad industries to be forecast which are also consistent with overall economic growth.

Model based forecasts of industry level economic activity along with industry level productivity (the latter moderated for consistency) are used by MBIE to derive forecasts of industry employment. The industry level employment forecasts are used to forecast employment in occupations which are summarised into high-level grouping of skills.

The forecasts suggest overall strong employment demand in the near term in response to buoyant economic growth associated with the Canterbury rebuild. It is expected to peak in the year to March 2015 and decline gradually over the next two years.

Key points

- Employment is forecast to grow by 2.4% (or 55,380) between 2014 and 2015 March year, by 2.2% (or 50,680) between 2015 and 2016 and by 1.6% (or 37,830) between 2016 and 2017
- The unemployment rate is forecast to decline, falling to 5.3% by March quarter 2015 then declining gradually to 5.1% by March quarter 2016 and dropping further to 4.8% by March quarter 2017
- Strong employment growth is forecast in the construction and utility industry over the next 2-3 years
- Growth in demand for employment in highly skilled occupations (mostly managers and professionals) will be higher than the overall employment growth. It will be at or above 2.3% per annum over the forecast period and account for more than 56% of the overall employment growth over the next 3 years
- Opportunities for lower-skilled workers are forecast to account for about 29% of the employment growth over this period. The food processing, retailing, accommodation, business services 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 Change) and not a point-to-point change which compares the March quarter result with the March quarter of the previous year. This is done to be consistent with the Treasury's GDP growth forecasts which are on a year to 31 March basis.

² Forecasts were completed in September 2014 using the quarterly GDP growth and other forecasts such as the Terms of Trade, TWI, and 90-day rates associated with the Treasury's 2014 Pre-Election Economic and Fiscal Update (19 August 2014).

- Regional employment growth over the next three years is forecast to be spread across many regions. The share of employment growth will be strongest in the Auckland and Canterbury regions accounting for 45% of the overall growth during the three years
- The global economic outlook has weakened slightly compared to six months ago, with some downside risk. Uncertainty about the Eurozone economic prospects has increased with positive, albeit small, growth expected in only a few countries. The likelihood of steady growth in the US has risen while weakening somewhat in China and Australia over the short term. This, along with weakening dairy prices, is expected to dampen New Zealand's export demand and returns. The Canterbury rebuild will provide on-going growth stimulus over the next two years.

Economic growth is expected to have peaked...

The 2014 Pre-Election economic update (PREFU) by the Treasury forecast that the economy will expand by 3.6% in the year to March 2015³, by 3.0% in the year to March 2016 and by 2.2% in the year to March 2017 (Table 1).

The prospects for global economic growth weakened during the first half of 2014 compared to six months ago. In its latest World Economic Outlook (October 2014)⁴, the International Monetary Fund (IMF) revised down the annual world output growth for 2014 'to reflect setbacks to economic activity in advanced economies during the first half of 2014 and less optimistic outlook for several emerging market economies'. Global growth is now forecast to be 3.3% (down 0.1% from the June 2014 forecast) and 3.8% (down 0.2%) in 2014 and 2015 calendar years, respectively. The 2015 growth forecast for the advanced economies ranges from 1.3% for the Euro area (down 0.2% from the June 2014 forecast), 2.7% for the UK to 3.1% for the US (unchanged from the June forecast).

The IMF growth forecast for Other Advanced Economies (including Australia and New Zealand) for 2014 and 2015 are 2.9% and 3.1%, respectively. Emerging economies, such as China and India, are still growing at a healthy rate, but this growth is well below the levels before the Global Financial Crisis.

Along with lowered global economic outlook and modest growth amongst trading partners, prices for some of the key New Zealand exports have also declined and businesses in New Zealand are not as confident as they were a year ago. The likelihood of slowing economic growth amongst some trading partners like Australia, uncertainty in the Eurozone and weaker dairy prices could impact adversely on the demand and returns for New Zealand exports.

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

Annual average percentage change	2015 (%)	2016 (%)	2017 (%)
GDP growth (Treasury)	3.6%	3.0%	2.2%
Labour productivity growth (MBIE)	1.2%	0.8%	0.6%
Employment growth (MBIE)	2.4%	2.2%	1.6%

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

³ This was forecast to be 3.7% for the 2014-15 March year in the 2014 PREFU in mid-August before the June quarter GDP growth figures were released in mid-September 2014.

⁴ Source: International Monetary Fund: World Economic Outlook Update, October 2014

<http://www.imf.org/external/pubs/ft/survey/so/2014/NEW100714A.htm>

<http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c2.pdf>

The Canterbury rebuild will continue to provide a substantial 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. It is spread across residential property (\$18 billion), commercial and social assets (\$15 billion) and infrastructure (\$5 billion). Rebuilding began to ramp up from the second half of 2013 and is expected to peak in the year to March 2015 and to remain around that level until 2017. This has provided a powerful offset to the slowly recovering global economy and the recent significant decline in international dairy prices.

...with consequent impacts on labour market performance...

Employment grew by 2.8% in the 2014 March year. This momentum has carried over and is expected to remain over the next two years. Employment growth is forecast to be 2.4% in 2015 March year, 2.2% in the 2016 March year, and 1.6% in the 2017 March year (see Table 1). This level of employment growth is related to the GDP growth forecast by the Treasury recently, which is expected to taper from its recent peak.

Employment is forecast to increase by about 143,900 between 2014 and 2017, associated with continuing resilience in the labour market partly due to the Canterbury rebuild. This will result in employment growth peaking in the 2015 March year but decline gradually over this entire period. The average employment growth rate of about 2.1% per annum over the 2014-17 period is well below the pre-recession average employment growth rate of 2.8% over the 2003-07 period (see Figure 1). Part of this can be attributed to higher average labour productivity over the forecast period compared to the pre-recessionary period.

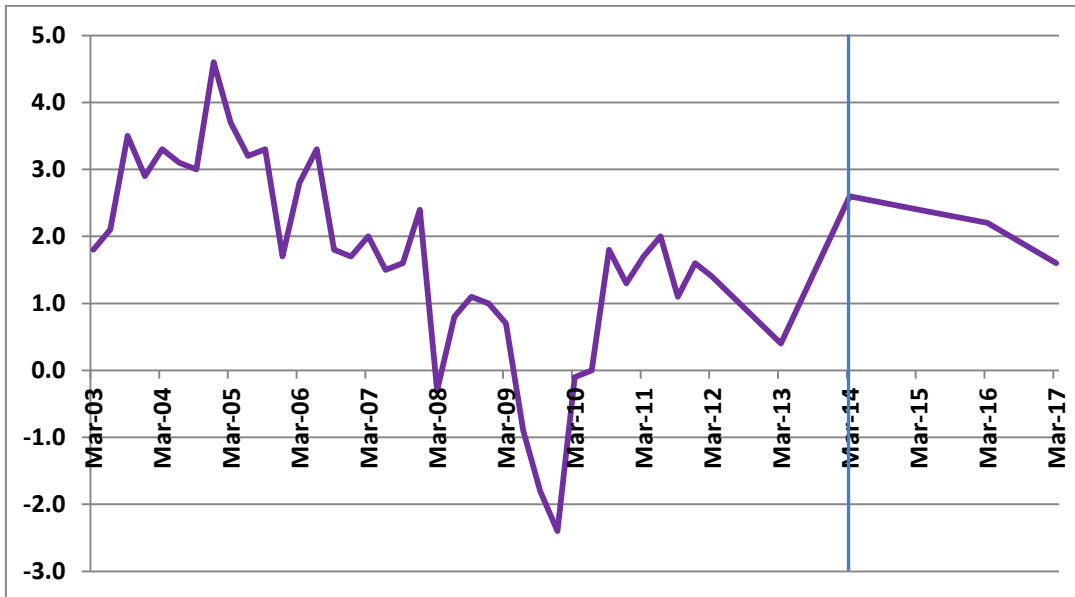
During the years to March 2017, in service industries such as wholesale and retail trade and hospitality, forecast employment growth is almost as high as forecast output growth. This arises from moderate service sector productivity growth, which declines over the forecast period as does productivity across the whole economy.

This employment growth forecast excludes job opportunities that will arise as workers retire. The Ministry estimates that this 'additional demand' due to those retiring is forecast at about 30,000 jobs per year over the coming years. While employment could rise by 55,000 in the 2015 year to March, another 30,000 people may be required to replace those retiring from the labour force. Some of this demand is likely to be met from high levels of net migration gains in the near term.

...resulting in further reduction in the unemployment rate ...

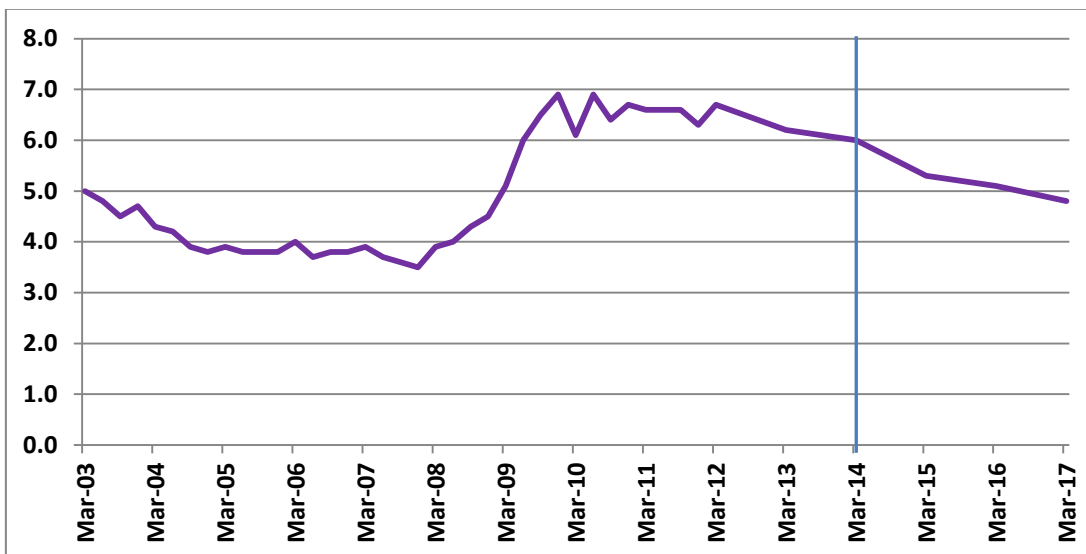
Steady employment growth, balanced by high labour force participation and strong population growth (resulting from high net migration), is forecast to lead to only a gradual drop in unemployment to 5.3% by March quarter 2015, to 5.1% by March quarter 2016 and to 4.8% by March quarter 2017 (see Figure 2).

Figure 1: Employment growth (annual average % 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 forecast in construction and related activities over the three years to March 2017 (about 28% of total growth). The Canterbury rebuild and strong growth in Auckland will drive the on-going growth in employment in construction. Over the forecast period, employment growth is forecast to be strongest in the construction and utility industry while the employment forecast for other industries vary over time.

Private sector services as a whole will account for substantial employment growth (about 43% of total growth). Employment growth in private sector services is attributable both to the high level of employment in this sector and the rate of forecast growth. Employment growth is also forecast across the public services sector (related to health and education), private service industries (such as hospitality and retail trade) along with some manufacturing industries (such as metal product and machinery and equipment manufacturing) (see Table 2 and Figure 3).

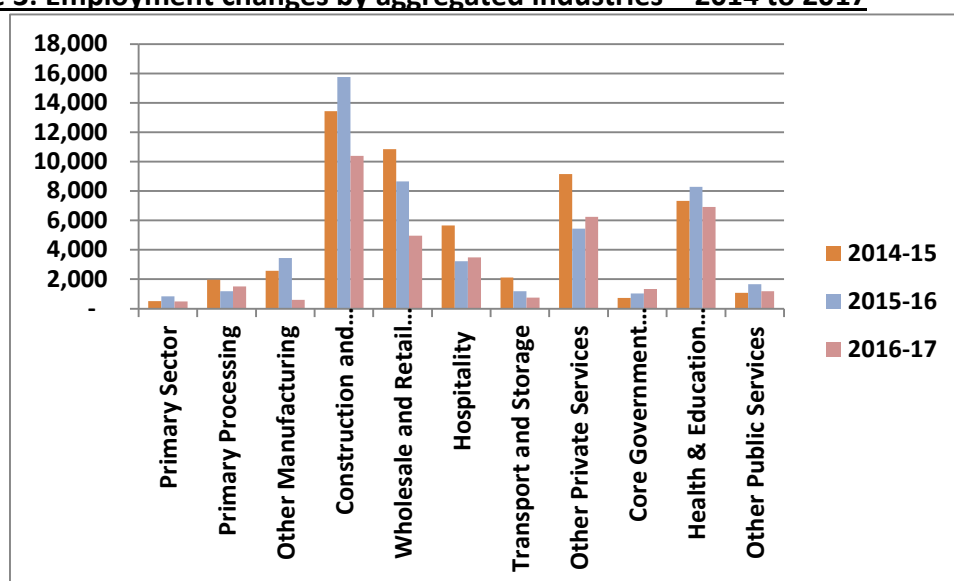
The Ministry forecasts employment growth in primary processing to strengthen first but still remain below overall levels and the construction sector to recover strongly at first but weaken slightly over the forecast horizon. GDP growth amongst primary processing activities is forecast to be stronger than in primary production, leading to higher employment growth during the next few years.

Table 2: Employment growth (percentage) by aggregated industries, March years

Aggregated Industry (ANZSIC06 based)	2015		2016		2017	
	(000)	(%)	(000)	(%)	(000)	(%)
Primary production	0.5	0.3%	0.8	0.5%	0.5	0.3%
Primary processing	2.0	1.9%	1.2	1.1%	1.5	1.4%
Other manufacturing	2.6	1.8%	3.5	2.3%	0.6	0.4%
Construction and utility	13.4	6.5%	15.8	7.2%	10.4	4.4%
Wholesale & retail trade	10.8	3.3%	8.6	2.5%	5.0	1.4%
Hospitality	5.7	3.8%	3.2	2.1%	3.5	2.2%
Transport and storage	2.1	2.2%	1.2	1.2%	0.8	0.8%
Other private services ⁵	9.2	2.0%	5.4	1.1%	6.2	1.3%
Core government sector	0.7	0.6%	1.0	0.9%	1.3	1.2%
Health and education	7.3	1.8%	8.3	2.1%	6.9	1.7%
Other public services ⁶	1.1	0.9%	1.7	1.4%	1.2	1.0%
Total	55.4	2.4%	50.7	2.2%	37.8	1.6%

Source: MBIE, Short-term employment model.

Figure 3: Employment changes by aggregated industries – 2014 to 2017



⁵ “Other private services” include employment in the Communication services, Finance & Insurance sector, Property services and the Business services.

⁶ “Other public services” include employment in the Cultural and Recreational services as well as Personal and Community services.

...and in highly skilled (managers/professionals) and skilled (trades) occupations...

During the three years to March 2017, employment growth in highly skilled jobs will be consistently stronger than overall employment growth (see Table 3 and figure 4) and will be above 2.3% in the three years to March 2017⁷. Employment growth through this period is forecast to be weakest for semi-skilled jobs (mainly workers in clerical, some service related and primary production activities). Growth in demand for skilled (trades) workers is forecast to remain strong at about 3% over the next two years when the Canterbury rebuild is forecast to reach its peak and the building activity in Auckland gears up.

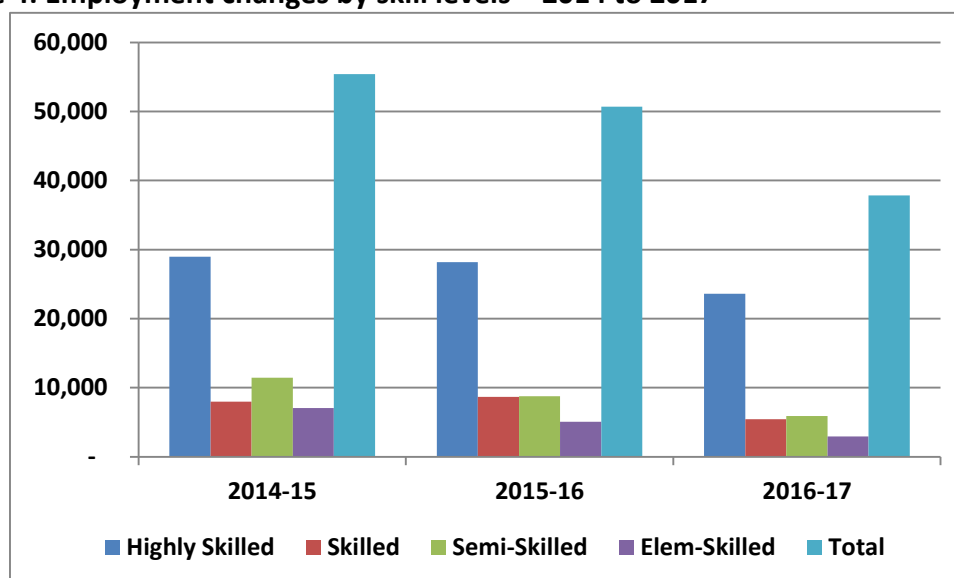
The forecast growth in highly-skilled jobs is reflected in MBIE's Jobs Online statistics which shows that skilled job vacancies advertised online increased by 10% in the year to September 2014. This indicates that some of the advertised demand for skilled workers is likely to translate to employment growth in skilled jobs over the period to follow.

Table 3: Employment growth (percentage) by skill level, March years

Skill-level (ANZSCO based)	2015		2016		2017	
	(000)	(%)	(000)	(%)	(000)	(%)
Highly skilled	28.9	3.0%	28.2	2.9%	23.6	2.3%
Skilled	8.0	2.9%	8.7	3.0%	5.4	1.8%
Semi-skilled	11.4	1.7%	8.8	1.3%	5.9	0.8%
Elementary skilled	7.0	1.8%	5.1	1.3%	2.9	0.7%
Total	55.4	2.4%	50.7	2.2%	37.8	1.6%

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

Figure 4: Employment changes by skill levels – 2014 to 2017



⁷ The forecasts shown for occupational employment and summarised to broad skill levels in Table 3 using 3-digit ANZSCO (Australia New Zealand Standard Classification of Occupations) are based on recent analysis incorporating the 2013 Census data on occupational shares across industries. This differs from the forecasts used in previous Short-term employment forecast updates.

...with some opportunities for lower-skilled workers

Opportunities for lower-skilled workers (that is, semi-skilled and elementary workers) are forecast to account for about 29% (or 42,000 workers) of the total employment growth of about 143,000 during the three years to March 2017.

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

...and additional employment opportunities from retirement

Retirement demand will be highest among highly-skilled and semi-skilled workers accounting for 20,000 in total out of the estimated 30,000 total (see Table 4).

Table 4: Retirement demand by skill-level, annual average 2013-20

Skill-level	2013-20	
	(000)	(%)
Highly-skilled	12	1.2%
Skilled	5	1.5%
Semi-skilled	8	1.2%
Elementary skilled	5	1.3%
Total	30	1.2%

Source: MBIE, Cohort component model using 7-yearly Census age cohorts.

Employment growth spread across the regions but Auckland and Canterbury will account for a large share

During the three years to March 2017, regional employment growth is forecast to be spread across many regions but employment growth in Auckland and Canterbury is forecast to account for a large share of national employment growth, together accounting for about 45% of total growth (see Table 5).

Auckland will continue to drive national employment growth over the forecast period due to its large size and share of employment in many industries expected to grow strongly, such as wholesale and retail trade, transport and storage and business services.

Canterbury will also contribute strongly to national employment growth as the rebuild activity continues over the forecast period and is anticipated to reach its peak in the 2015 March year. This is reflected in strong growth in employment across a range of skills over the three years to March 2017, with most of this in construction related activities.

Table 5: Employment growth by region, three years to March 2017

Region	2014-17	
	(000)	(AAPC*)
Northland	4.5	2.1%
Auckland	44.9	2.0%
Waikato	10.0	2.0%
Taranaki	6.2	2.0%
Bay of Plenty	9.5	2.0%
East Coast	6.0	1.9%
Central	7.4	2.1%
Wellington	14.7	2.0%
Nelson	6.2	2.0%
Canterbury	20.4	2.2%
Southern	14.3	2.1%
Total⁸	143.9	2.1%

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

* AAPC – Annual Average Percentage Change

Caveats

The employment forecasts included in this report are based on forecasts of quarterly GDP growth, Terms of Trade, TWI and 90-day rates contained in the 2014 Pre-election Economic and Fiscal Update (PREFU) released by the Treasury in August 2014. The Treasury forecasts released in mid-August 2014 for 2015 year to March were updated with the June 2014 quarter GDP results (lower than forecast in 2014 PREFU) released in mid-September.

⁸ These are regional results based on regional employment shares applied to the modelling of industry level economic activity, productivity and employment outcomes at the national level from a top-down approach. These are not likely to reconcile with results from a bottom-up analysis of particular industries in any particular region such as for the Canterbury rebuild.

