MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Short-term Employment Forecasts: 2016–2019

March 2016

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Short-term employment forecasts: 2016-2019

Background

Employment forecasts[1] for 2016 to 2019 (March years) are presented in this report. These employment forecasts will 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 and the Reserve Bank of New Zealand, 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 consistent with overall economic growth.

The Ministry used model-based forecasts of industry level economic activity and productivity (the latter moderated by the Ministry following an analysis of other forecasts produced for individual sectors) to derive forecasts of industry employment. The industry level employment forecasts are then used to forecast employment by occupations and by skill levels by using occupational shares across industries. The regional employment by industries is forecast next, followed by occupations by industries across the regions.

The forecasts suggest overall employment demand will be strong in the near term in response to domestic-focused growth supported by strong activity in the construction, private services and hospitality industries. Employment growth has peaked in 2015 and is forecast to weaken in 2016 before averaging about 2.1 per cent over the next three years to 2019.

Key points

- Employment growth peaked in 2015 at 3.4 per cent, forecast to slow to 1.7 per cent in 2016 and to average 2.1 per cent over the next three years.
- Employment is forecast to grow by 2.1 per cent (or 48,200) in 2017, by 2.3 per cent (or 53,400) in 2018 and by 1.9 per cent (or 46,800) in 2019.
- The unemployment rate is expected to rise slightly to 5.6 per cent in March quarter 2016, and to 6.0 per cent in March quarter 2017, coinciding with strong labour supply growth from high net migration levels. In March quarter 2018, the rate drops to 5.5 per cent when employment growth strengthens, dropping further to 5.0 per cent by March 2019 quarter.
- Strong employment growth is expected in the construction & utility industries, along with the hospitality, wholesale & retail trade and business service industries over the next three years.
- Growth in demand for employment in highly skilled occupations (mostly managers and professionals) will be higher than overall employment growth. It will average about 2.8 per cent per annum over the 2016-19 period and account for more than 57 per cent of the overall employment growth over the next 3 years. Highly skilled occupations made up 42 per cent of the overall employment share in 2015 and this is forecast to rise to 43.2 per cent by 2019.

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[1] All forecasts in this report are annual averages for 31 March years. Consequently annual changes are not point-to-point changes, which would compare a March quarter result with previous March quarter result. 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 February 2016 using Treasury's forecasts of quarterly GDP growth in the 2015 Half Year Economic and Fiscal Update (December 2015).

- Opportunities for lower-skilled workers are expected to account for about 30 per cent 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. Lower-skilled occupations accounted for 46 per cent of the overall employment share in 2015, which is forecast to fall to 45 per cent in 2019.
- Regional employment growth over the next three years is forecast to be spread across a number of regions. The average annual rate of employment growth will be strongest in Marlborough (up 3.6 per cent), West Coast (up 3.2 per cent) and Otago (up 3.2 per cent) regions in the South Island and in Auckland (up 2.4 per cent), Waikato (up 2.3 per cent) and Taranaki (up 2.3 per cent) regions in the North Island. The largest increases in employment numbers will be in Canterbury (up 19,900 workers) and in Auckland (58,800 workers). These two regions will provide more than half of the overall growth during the three years.
- The main downside risks for the export sector are weaker export prices, and weaker demand from continued economic slowdown in China, lower economic growth in New Zealand's other main trading partners and risks related to geopolitical tensions.
- On the domestic front, construction activity will continue to drive growth but is likely to ease over the next three years. Infrastructure investments in the Auckland region will continue at a steady pace. Subdued growth in residential, business and government investment is also likely over the forecast period.

Global economic growth has slowed but is forecast to pick up in the short-term…

In its latest World Economic Outlook (January 2016)[3], the International Monetary Fund (IMF) projects gradual global economic growth, with lower commodity prices, high debt levels and a slowdown of large economies like China, remain as risks to the global outlook. Global growth is now forecast to be 3.4 per cent in 2016 (down from 3.6 per cent in the October 2015 forecast) and 3.7 per cent (down from 3.8 per cent) in the 2017 calendar year.

The 2016 growth forecast for advanced economies ranges from 1.7 per cent for the Euro area (up from 1.6 per cent in the October forecast), 2.2 per cent for the UK (unchanged from the previous forecasts) to 2.6 per cent for the USA (down from 2.8 per cent in the October forecast). Growth in emerging and developing economies is projected to increase from 4.0 per cent in 2015 to 4.7 per cent in 2016 and 2007, as economic rebalancing in China is offset by robust growth in India and the rest of emerging economies in Asia.

Along with a 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[4]. The likelihood of further slowing of economic growth amongst some trading partners, uncertainty in the Eurozone and weaker dairy prices could impact adversely on the demand and returns for New Zealand exports.

[3] Source: International Monetary Fund: World Economic Outlook Update, January 2016, http://www.imf.org/external/pubs/ft/weo/2016/update/01/pdf/0116.pdf

[4] ANZ Business Outlook- February 2016

Construction, tourism and services sector, with migration gains underpin domestic growth…

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

Annual average percentage change	2016 (%)	2017 (%)	2018 (%)	2019 (%)
GDP growth (Treasury)	2.3 %	2.5%	3.5%	3.0%
Labour Productivity (MBIE)	0.6%	0.4%	1.2%	1.1%
Employment growth (MBIE)	1.7%	2.1%	2.3%	1.9%

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

The 2015 Half Year Economic and Fiscal Update (HYEFU) by the Treasury forecasts that the economy will grow by 2.5 per cent in 2017, but strengthen to 3.0 per cent or higher in the next two years (Table 1). Compared with the 2015 Budget Economic and Fiscal Update (BEFU), the outlook in the short-term is weaker but stronger over the medium-term. Growth in construction, tourism and the services sector, and net migration gains will underpin the recovery in the short-term.

Construction activity will remain a major boost to employment in the short-term despite the Canterbury rebuild activity having levelled out. Building and construction activity is forecast to be mainly driven by Auckland residential construction over the next three years.[5] Tourism is also likely to boost employment in the retail and hospitality industries, and offset the recent weakening of the dairy industry due to falling export prices. In the year to January 2016, visitor arrivals to New Zealand have risen sharply (up 14 per cent). The positive outlook in hospitality and tourism-related industries is anticipated to continue in the short-term according to the latest tourism forecasts[6] by the Ministry for the 2015-2021 period. High levels of migrant arrivals are also expected to support GDP growth by stimulating private consumption in the short-term.

According to the latest Monthly Economic Indicator released by the Treasury in February 2016, New Zealand's per capita real GDP growth is significantly correlated to trading partners' GDP growth. Treasury also finds that New Zealand benefits from an increase in trading partners' consumption share of their GDP. These findings show the impact of international growth on New Zealand through trade.

…employment growth continues to be modest …

Employment growth is forecast to ease considerably to 1.7 per cent in 2016 from 3.4 per cent in 2015. This growth is forecast to recover to 2.1 per cent in 2017, and to 2.3 per cent in 2018 (see Table 1). These growth rates reflect the GDP growth forecast by the Treasury for December 2015 HYEFU, which was revised from the BEFU in May 2015.

Employment is forecast to increase by 148,300 between 2016 and 2019, but at different levels across the sectors and regions. The forecast average annual employment growth rate of 2.1 per cent over the three years to 2019 is below the pre-recession 2.8 per cent over the four years to 2007 (see Figure 1). Part of this can be attributed to higher labour productivity over the forecast period compared to the pre-recession period.

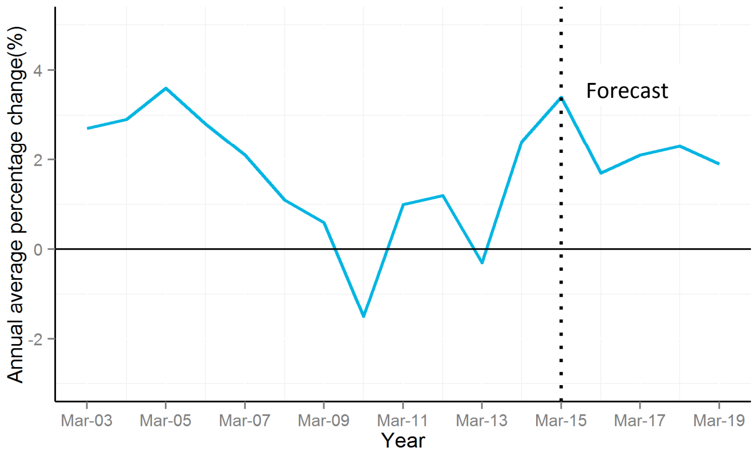
[5] http://www.building.govt.nz/national-construction-pipeline-report-3.pdf
[6] Ministry of Business Innovation and Employment (May 2015). New Zealand Tourism Forecasts 2015-2021

This employment growth forecast excludes job opportunities that will arise as workers retire. While employment could rise by 48,200 in 2017, the Ministry estimates that another 30,000 people may be required to replace those retiring from the labour force. High levels of net migration in the near term are likely to meet some of this demand.

…unemployment peaks at 6.0 per cent in 2017 and falls to 5.0 per cent in 2019…

Steady labour force participation and very strong population growth (resulting from high net migration), together with modest employment growth is forecast to lead to a rise in the unemployment rate to 6.0 per cent in March quarter 2017 (see Figure 2), then decline to 5.5 per cent in March quarter 2018. In March quarter 2019, the unemployment rate is forecast to decline to 5.0 per cent as the employment growth strengthens and the net migration level slows.

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 construction and hospitality continuing to boost employment…

Over the forecast period, overall annual employment growth (4.5 per cent) is underpinned by strong growth in the construction and utility industries, followed by the hospitality and health & education industries. Nearly 20 per cent (or about 30,000 workers) of the total employment growth over the three years 2019 is forecast to occur in construction and related activities, with Auckland setting of the pace through strong residential construction demand.

The hospitality sector, growing annually at 2.8 per cent, is forecast to increase total employment by 13,700, accounting for 9.2 per cent of the total growth in employment between 2016 and 2019, with health and education, growing at 2.4 per cent per annum, forecast to account for 19.2 per cent (28,400 workers).

Business services will account for about 10.3 per cent (or 15,200) of the total employment growth over the forecast period. Employment growth is also expected in other private services including transport and storage, and wholesale and retail trade industries (see Table 2 and Figure 3).

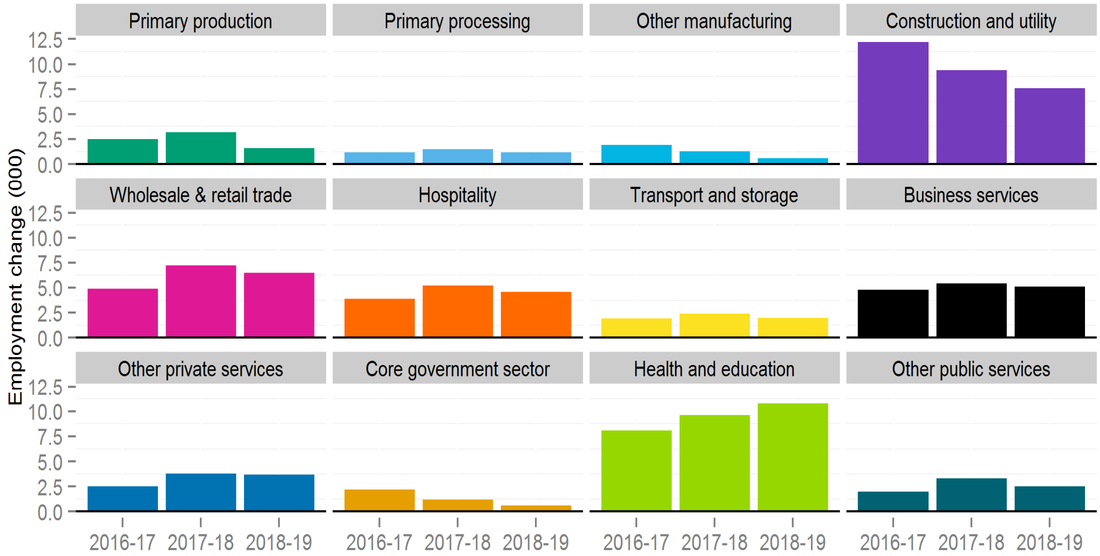
Table 2: Employment growth by aggregated industries, March years

Aggregated Industry	**2016-17**		**2017-18**		**2018-19**		**2016-19**	
(ANZSIC06 based)	**(000)**	**(%)**	**(000)**	**(%)**	**(000)**	**(%)**	**(000)**	**(%)**
Primary production	2.5	1.5%	3.2	1.8%	1.6	0.9%	7.3	1.4%
Primary processing	1.2	1.1%	1.5	1.3%	1.2	1.0%	3.9	1.1%
Other manufacturing	1.9	1.6%	1.3	1.1%	0.6	0.5%	3.8	1.0%
Construction and utility	12.2	5.8%	9.4	4.2%	7.6	3.3%	29.3	4.5%
Wholesale & retail trade	4.9	1.5%	7.2	2.1%	6.5	1.9%	18.6	1.8%
Hospitality	3.9	2.5%	5.2	3.2%	4.6	2.8%	13.7	2.8%
Transport and storage	1.9	2.0%	2.4	2.5%	2.0	2.0%	6.3	2.2%
Business services	4.8	1.6%	5.4	1.8%	5.1	1.7%	15.2	1.7%
Other private services[7]	2.5	1.6%	3.8	2.3%	3.7	2.3%	10.0	2.1%
Core government sector	2.2	1.5%	1.2	0.8%	0.6	0.4%	4.0	0.9%
Health and education	8.1	2.1%	9.6	2.4%	10.8	2.7%	28.4	2.4%
Other public services[8]	2.0	1.5%	3.3	2.4%	2.5	1.7%	7.8	1.8%
Total	**48.1**	**2.1%**	**53.4**	**2.3%**	**46.8**	**1.9%**	**148.3**	**2.1%**

Source: MBIE, Short-term employment model

[7] "Other private services" include employment in the Communication services, Finance & Insurance sector, and Property services.
[8] "Other public services" include employment in the Cultural and Recreational services as well as Personal and Community services.

Figure 3: Employment changes by aggregated industries – 2016 to 2019



…and strong prospects for highly skilled (managers/professionals) occupations and skilled (trades) workers…

During the three years to 2019, employment growth in highly skilled jobs will be consistently stronger than overall employment growth (see Table 3 and Figure 4) and will average 2.8 per cent[9]. Employment growth through this period is weakest for elementary-skilled jobs (mainly labourers). Strong growth in demand for skilled (trades) workers is forecast at 2.6 per cent in 2017, and to soften to 1.9 per cent in 2019, as the Canterbury rebuild and overall construction activity and primary production and processing growth slows.

The anticipated growth in highly-skilled jobs is reflected in the Ministry's Jobs Online statistics which show that skilled job vacancies advertised online increased by 2.9 per cent in the year to January 2016.[10]

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

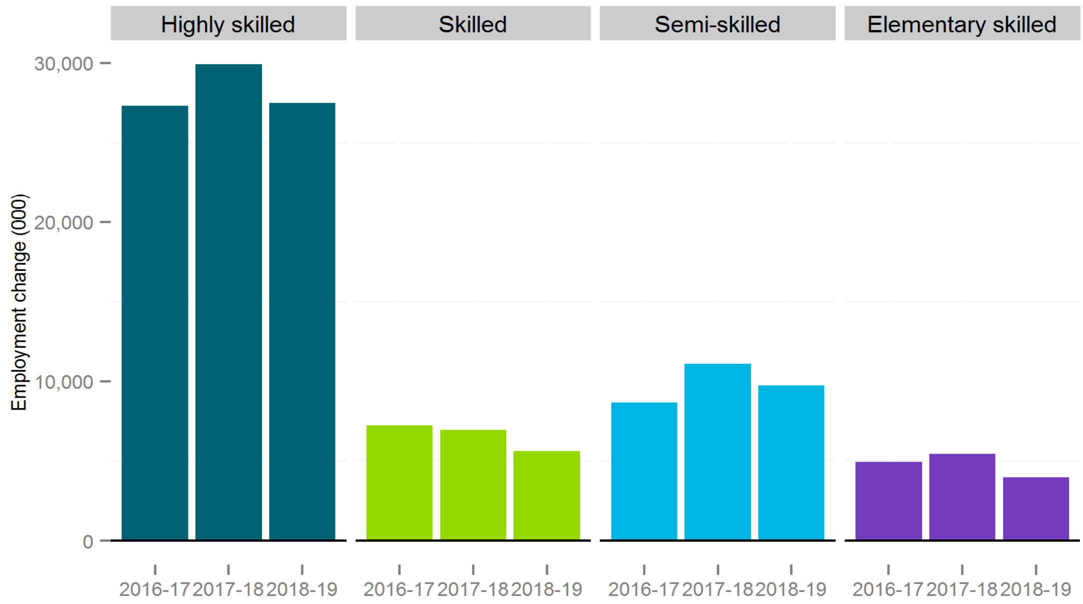
Skill-level (ANZSCO based)	2016-17		2017-18		2018-19		2016-19	
	(000)	(%)	(000)	(%)	(000)	(%)	(000)	(%)
Highly skilled	27.3	2.8%	29.9	3.0%	27.5	2.6%	84.7	2.8%
Skilled	7.2	2.6%	6.9	2.4%	5.6	1.9%	19.7	2.3%
Semi-skilled	8.7	1.3%	11.1	1.6%	9.7	1.4%	29.5	1.4%
Elementary skilled	4.9	1.3%	5.4	1.4%	4.0	1.0%	14.3	1.3%
Total	**48.1**	**2.1%**	**53.4**	**2.3%**	**46.8**	**1.9%**	**148.3**	**2.1%**

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

[9] 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 analysis incorporating the 2013 Census data on occupational shares across industries.

[10] Jobs Online Monthly Report - Monthly report - NZ Ministry of Business, Innovation and Employment

Figure 4: Employment changes by skill levels – 2016 to 2019



…with some opportunities for lower-skilled workers…

Opportunities for lower-skilled workers (that is, semi-skilled and elementary workers) are expected to account for nearly 30 per cent (or 43,800 workers) of the total employment growth of 148,300 during the three years to 2019. Employment in lower-skilled occupations is forecast to fall slightly from 46 per cent of the overall employment share in 2015 to 45 per cent by 2019.

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

…and additional employment opportunities from retirement…

Highly-skilled workers will have the highest retirement demand, accounting for 12,000 out of the estimated 30,000 total, and skilled-workers will have the highest retirement rate (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

…with growth spread across regions

During the three years to 2019, employment growth is forecast to be spread across the regions. Auckland, Canterbury, Wellington, Waikato and Otago regions will account for 80 per cent of the total employment growth (see Table 5). These regions also accounted for 70 per cent of the employment in 2015.

Employment in Auckland is forecast to increase, on average, by 2.4 per cent per year, making up 40 per cent of the total increase over the next three years to 2019. This is due to Auckland's large size and share of employment in many industries that are likely to grow strongly, such as construction, wholesale and retail trade, transport and storage, hospitality, and business services.

Waikato will also contribute strongly to national employment growth over the forecast period. The region is forecast to grow by 2.3 per cent per annum (or 4,400 workers annually) in the three years to 2019, with strong employment growth in the region's construction and utilities (up 3.9 per cent), health and community services (up 3.2 per cent), and hospitality (up 3.2 per cent) sectors as key drivers. Waikato makes up 8.8 per cent of the total increase in employment over the forecast period.

Wellington will contribute 14,200 to the total employment growth over the forecast period. The region is forecast to grow by 1.8 per cent per annum (or 4,700 workers annually) in the three years to 2019. Growth in the region will be driven by activities in the hospitality (up 4.1 per cent), construction (up 4.0 per cent) and health and education (up 2.3 per cent) sectors between 2016 and 2019. The core public services sector is forecast to grow at 1.1 per cent per annum on average over the forecast period.

Rebuild activity will continue to drive employment growth in Canterbury over the next two years. However, employment growth is expected to slow as rebuilding activity gradually winds down. Over the forecast period, employment is forecast to grow by 2.1 per cent on average (or 6,600 workers annually), with most of this in construction-related activities and business services. The Canterbury region will account for about 13 per cent of the total increase in national employment over the forecast period.

Hospitality, wholesale and retail trade and construction activities are anticipated to increase employment at an average of 3.2 per cent per annum in the Otago region, with 12,300 more people employed over the forecast period. Growth in the region is largely driven by expansion of employment in the construction and utilities (up 5.5 per cent per year), hospitality (up 4.8 per cent per year) and business services (4.0 per cent per year) in the three years to 2019. Compared with the other regions, the Otago region is forecast to show the third strongest employment growth over the forecast period (see Table 5).

The pace of employment growth in the Marlborough, West Coast and Tasman regions is also projected to be faster than the national average. Over the forecast period, employment in the Marlborough region is forecast to increase on average by 3.6 per cent per annum, contributing 3,600 workers to the total employment growth. Tasman and West Coast combined will be contributing 3,700 workers to this total growth between 2016 and 2019.

Overall, regions that have a high concentration of employment in lower-growth industries such as primary production and certain primary processing are forecast to have overall slower employment growth over the forecast period compared to other regions. Regions with a high concentration of employment in high-growth sectors such as, construction, hospitality and business services are likely to see faster employment growth relative to other regions.

Table 5: Employment growth by region, three years to March 2019

Regional Council	2016-2019	
	(000)	(AAPC*)
Northland	1.5	0.8%
Auckland	58.8	2.4%
Waikato	13.1	2.3%
Bay of Plenty	7.4	1.5%
Gisborne	0.5	0.8%
Hawke's Bay	2.7	1.1%
Taranaki	4.2	2.3%
Manawatu-Wanganui	3.3	1.0%
Wellington	14.2	1.8%
Nelson	0.7	0.8%
Tasman	1.9	3.1%
Marlborough	3.6	3.6%
West Coast	1.8	3.2%
Canterbury	19.9	2.1%
Otago	12.3	3.2%
Southland	2.6	1.6%
Total	**148.3**	**2.1%**

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

** AAPC – Annual Average Percentage Change*

Detailed employment forecasts available online

A complete set of industry and occupation employment forecasts by region is available on the Ministry's website at http://www.mbie.govt.nz/info-services/employment-skills/labour-market-reports/forecasting/short-term-employment-forecasts .

Caveats

The employment forecasts included in this report are based on forecasts of quarterly GDP growth, contained in the 2015 Half Year Economic and Fiscal Update (HYEFU) released by the Treasury in December 2015. The Treasury forecasts released in mid-December 2015 were updated by the Ministry with the December 2015 quarter HLFS results released in early-February 2016. TWI, terms of trade and 90-day rates were also based on the forecasts reported in the 2015 Half Year Economic and Fiscal Update (HYEFU).

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