



Labour Market Conditions for Business

Shortages to worsen

Report to Business NZ
10 March 2022



SENSE PARTNERS
DATA LOGIC ACTION



1. Key points

The New Zealand labour market is constraining New Zealand businesses. Employment is at a record high and as a result hiring more people is the hardest on record. There is record demand for goods and services, but they can't be delivered because of a lack of labour and materials. There aren't enough people who aren't in a job and looking or available for work, and often there are mismatches in skills and location.

Job ads are 33% higher than before the pandemic. Vacancies are widespread across regions, industries, and income bands.

The pool of available workers is at a record low. Employment has dragged people out of unemployment and into the labour force, but often away from study. The share of the population in study is near record lows, despite strong growth in admissions. This will hit a natural limit soon as many do not want to work because they are retired, or care for dependents (mainly children). People leaving study could sow the seeds of future skills shortages.

Despite record shortages, wage inflation is not yet at the red-hot pace of 2005-2008. Because labour market conditions take around 1½ years to flow through to generalised labour cost inflation, we expect to see sustained acceleration from mid-2022. Wage inflation is a lagging indicator of labour shortages.

The biggest uncertainty for the labour market is the final shape of the 'immigration rebalance' currently being designed. Strong population growth, fed by immigration, has been a staple of the modern New Zealand labour market. We have relied on immigration to increase the pool of workers and specific skills and help foster global trade and innovation relationships.

If immigration reduces, as likely in the 'immigration rebalance', we will need a structural change in our education and training sectors and in our capital markets, as well as business investment in new capital, systems, and processes. These will take time and immediate labour and skill shortages will intensify significantly. Retaining those already here and clarity on future immigration policy are critical for businesses to plan amid record labour shortages.

Net migration of New Zealanders is likely to turn negative again once borders open. The number of returning New Zealanders slowed a little during the pandemic, but departures for OE and to live and work overseas slumped and there is pent up demand to go now. If old patterns reassert, net migration of New Zealanders will turn negative with open borders.

Businesses should plan for intensifying labour shortages through 2022 and 2023.



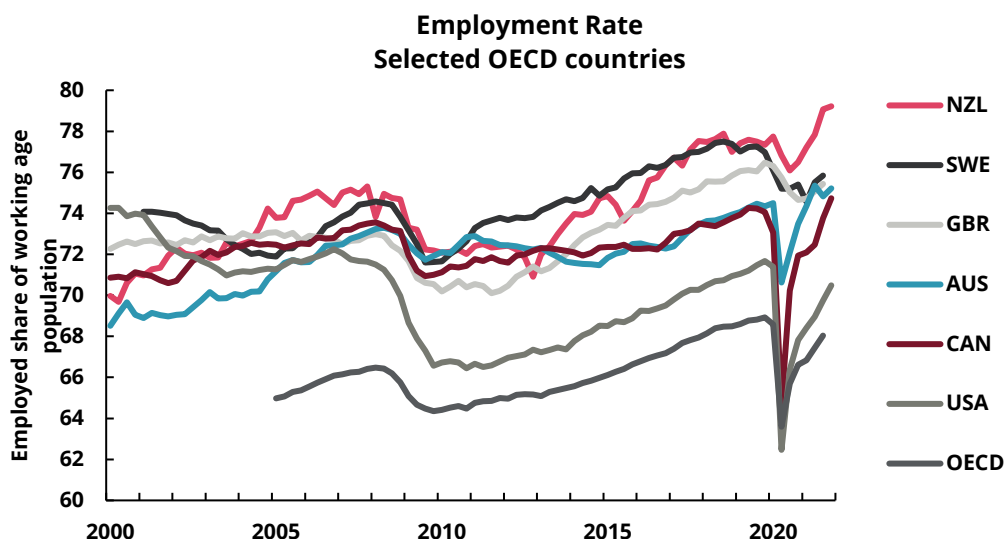
2. Labour market at record strength

Jobs at a record high...

Employment in New Zealand has surged to a record high, in absolute numbers and relative to the working age population. Compared with selected OECD countries NZ has one of the strongest labour markets.

The economy and the labour market have both been much stronger than was expected at the beginning of the pandemic. Extraordinary monetary and fiscal stimulus, especially policies like the wage subsidy, have prevented mass layoffs and business closures during lockdowns, and promoted strong economic and employment growth outside of lockdowns.

Figure 1: NZ has record high levels of employed share of the population, compared with history and other OECD countries



Source: OECD

...the pool of 'not working' at record low

Very high employed share of the population means there are fewer people of working age not working, and a smaller potential pool of new workers.

There are several measures of the available labour pool; unemployed, under-employed and underutilised are all at, or near, record lows. These indicators have different definitions and mean we should interpret carefully.

- Unemployed is the narrowest measure, which counts those who are out of work, are actively looking and are available to start. That as a share of the working age population, rather than the labour force (the sum of employed and unemployed), is at a record low. Reducing unemployment further will become

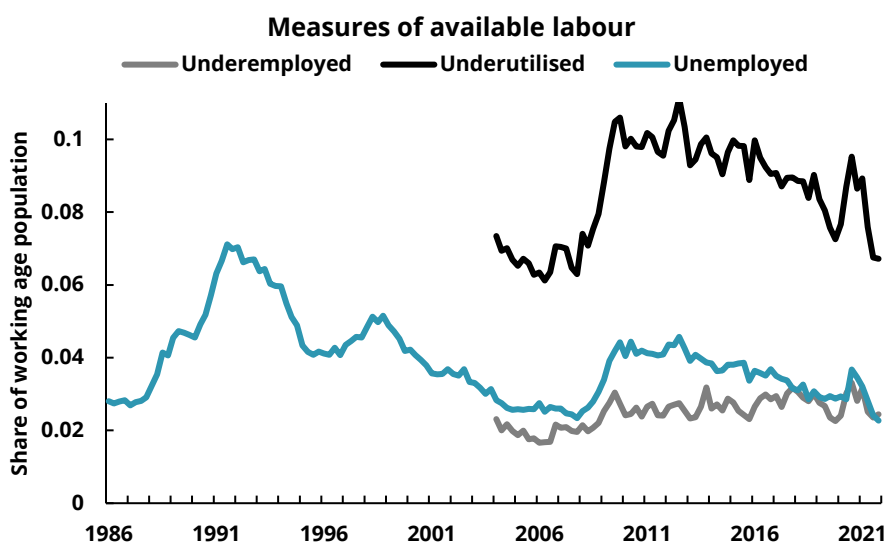


more difficult, as some portion of this is frictional (people between jobs) and some of it harder to solve, such as the long term unemployed with outdated qualifications or atrophied skills.

- Underemployed are those who are currently employed part-time but would like to work more hours. The most common reason not finding more hours is because the work is not available. This tends to affect younger workers and those in more part-time industries like retail and hospitality. This source could be worth around 25,000 FTE, but skills matching may be a barrier.
- Underutilised is the broadest measure, which includes unemployed who are looking for work or are available for work (officially unemployed must be both available and actively looking) and underemployed workers. Increasing wages, less punitive abatements for welfare and family support, more flexible work conditions, access to childcare, and access to relevant education and training may be necessary to move more people into wanting and looking for a job. Unless more people can be brought into the labour force, most of this underutilisation will be from underemployment (25,000 FTE as per above). Other sources could yield less than 10,000 FTE.

All these measures are at or near record lows. Beyond these levels it is difficult to attract people to work, as they may be simply between jobs (frictional unemployment), long-term unemployed with difficulty re-entering work due to atrophied skills for example, or there are other reasons like caring for dependents. Even if the measures fell to record lows, there are perhaps 35,000-50,000 people available to work.

Figure 2: Measures of labour availability at record lows



Source: Statistics New Zealand, Sense Partners



No great resignation in New Zealand yet

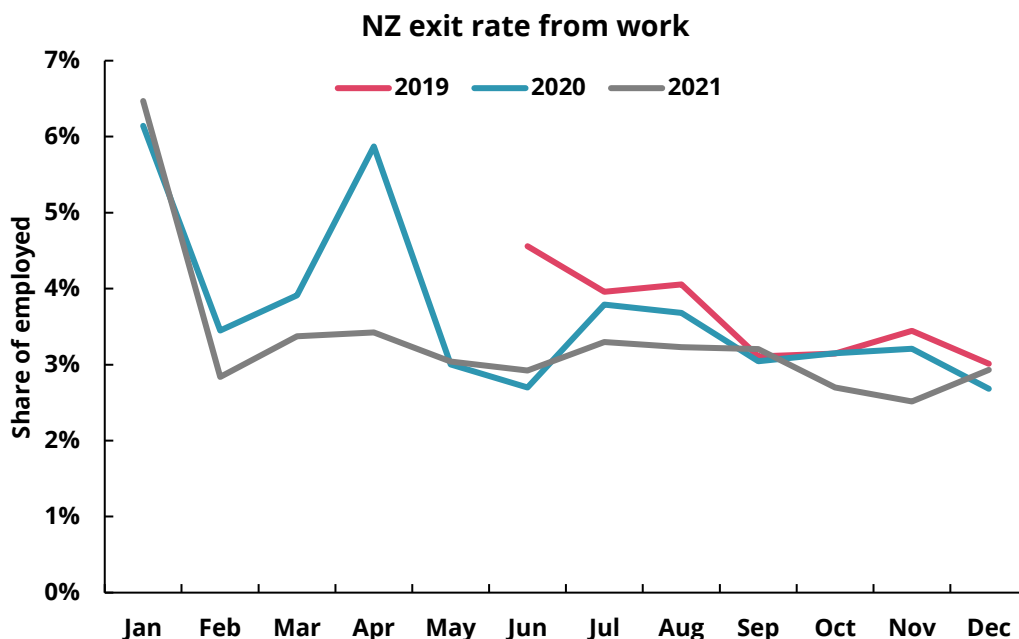
In the US they are experiencing a 'great resignation' – with more people quitting their jobs than had been the norm pre-pandemic. This has been primarily related to the risk of Covid exposure and associated stress (in frontline work such as hospitality and health), less generous employment retention strategies, and the need to care for other family members (especially children). While they are experiencing a strong recovery from pandemic related job losses, there is still a relatively large pool of workers in the population.

In the US, labour force participation fell sharply during the early stages of the pandemic but is recovering to pre-Covid levels. In New Zealand, labour force participation is at a record high.

In the US worker exits from work, mainly from quitting jobs, is unusually high. It has increased from around 3.5% pre-pandemic to around 4% now. This has led to the 'great resignation' phenomenon. In New Zealand, our exits from work have been lower than pre-pandemic rates and lower than those observed in places like the US.

We should not confuse overseas (particularly US) labour market narratives for a local one. There is no big pool of available but unwilling workers as in those places.

Figure 3: New Zealand exits from work have not risen since the pandemic, unlike the great resignation in the US



Source: Statistics New Zealand



Demand for workers is near record highs = shortages

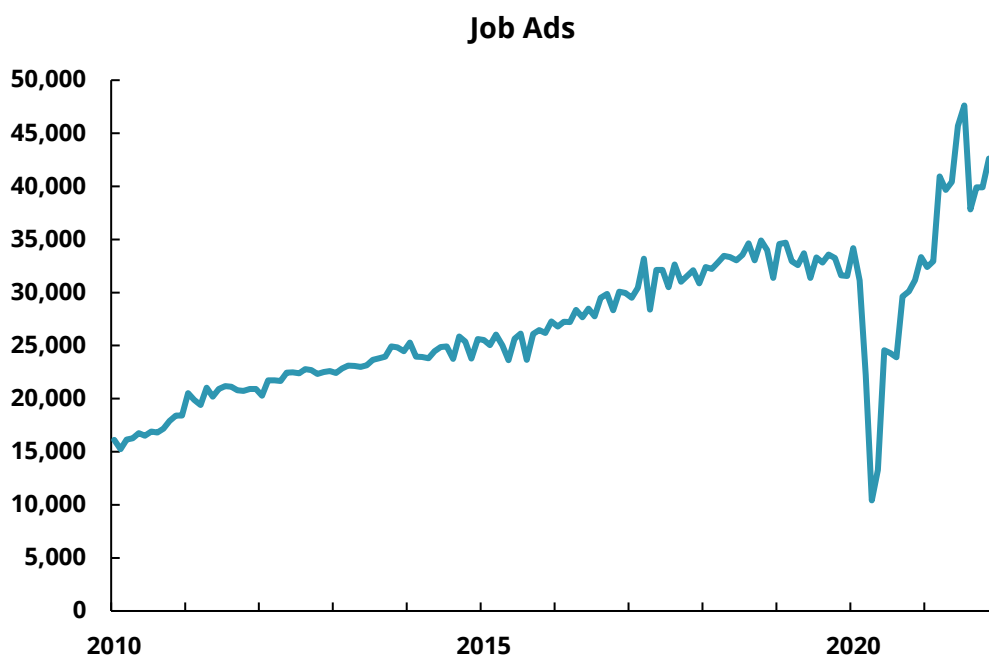
We don't have accurate figures for vacancies in New Zealand, but we do have reliable measures of job ads placed online¹.

Job ads are near record highs, after a slump at the beginning of the pandemic and then a yo-yo rebound. The number of job ads in December 2021 was 33% higher than in December 2019.

Job ads show demand for labour is at record highs. Combined with a record low number of people out of work means that it is getting harder and harder to find workers. People moving from job-to-job only moves vacancies around. Vacancies will fall if more people move into work (from out of work).

The NZIER's Quarterly Survey of Business Opinion shows firms are finding it very hard to recruit (hardest on record), and lack of labour is the biggest constraint to growing their business (meaning they cannot make or sell more products without more workers, ia limit to business and thus economic growth).²

Figure 4: Job ads have eased from record highs, but are 33% higher than pre-pandemic levels



¹ This can undercount job ads if firms are discouraged. They can also overcount, if the vacancy is advertised in more than one platform (it's not possible to fully account for this duplication).

² <https://nzier.org.nz/media/nziers-qsbo-shows-weaker-demand-and-confidence-quarterly-survey-of-business-opinion-january-2022>

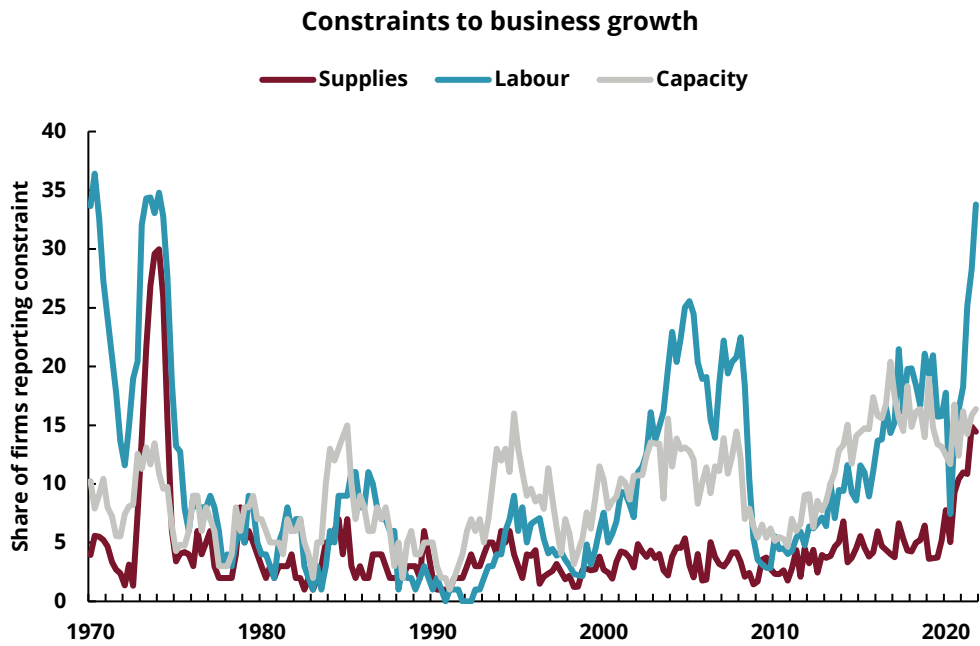


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Source: Sense Partners compilation of data from ANZ Job Ads and MBIE Job Online Index

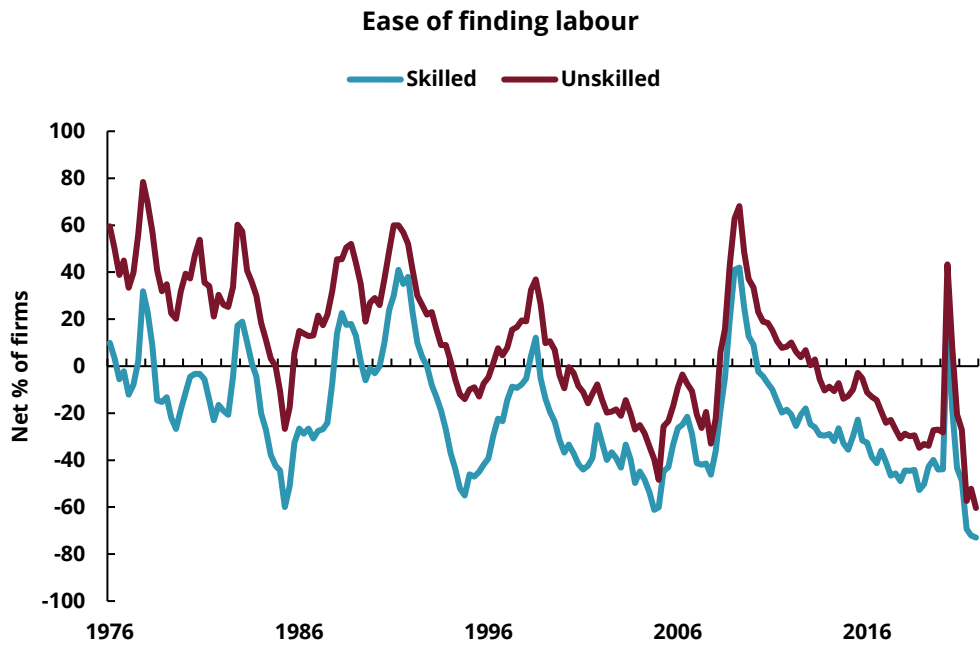


Figure 5: Labour is the biggest constraint to economic growth



Source: NZIER Quarterly Survey of Business Opinion

Figure 6: Finding labour is the hardest it has ever been



Source: NZIER Quarterly Survey of Business Opinion

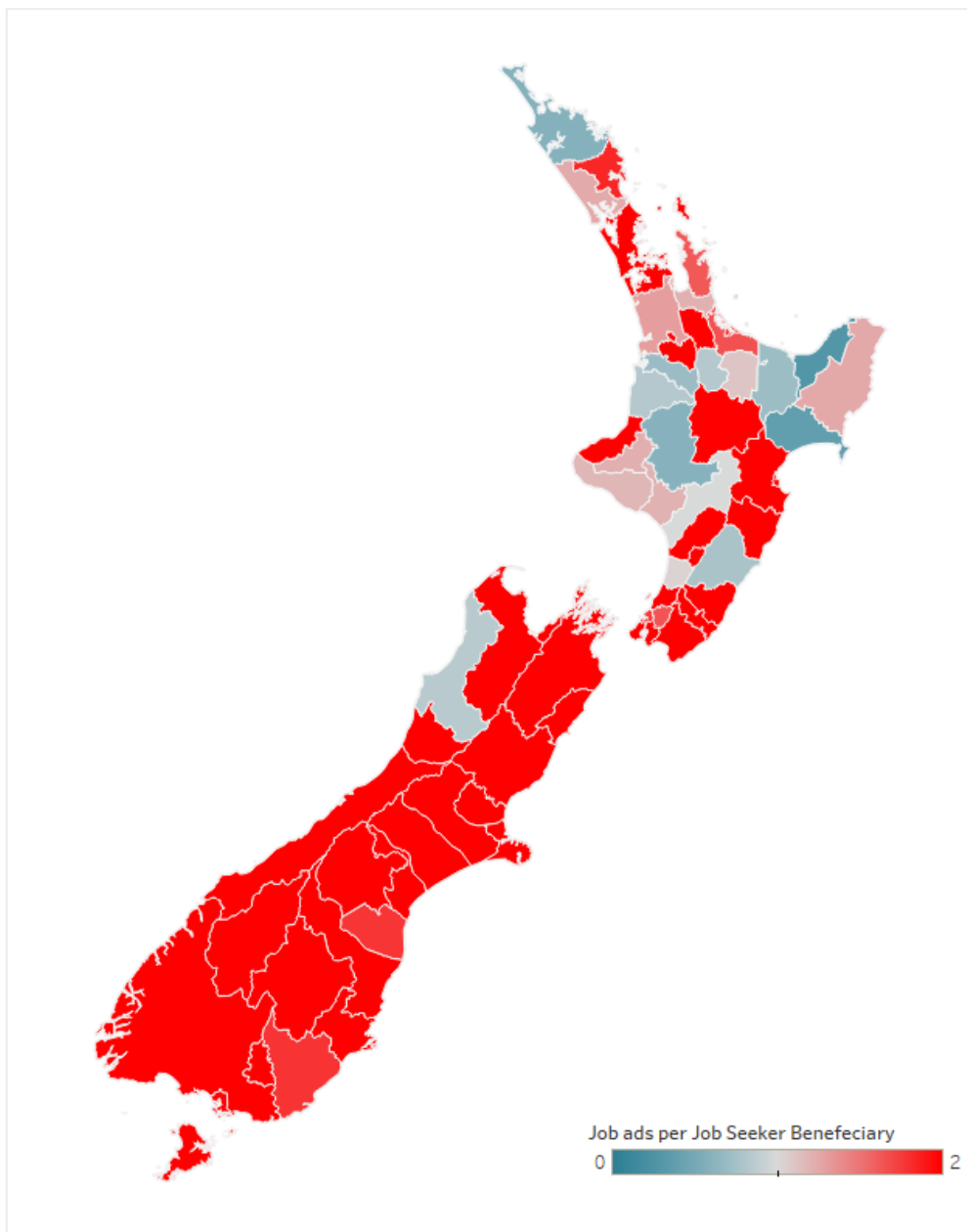


Some geographic mismatch

Most parts of New Zealand are experiencing significant labour shortages. We mapped Trade Me Job Ads by Territorial Authority with Job Seeker recipients as a proxy of locally unemployed. The map shows that 82% of Territorial Authorities have vacancies well in excess of locally available labour.

Figure 7: Vacancies are higher than locally available labour in most parts of New Zealand

Number of job ads per registered Job Seeker recipient



Source: Sense Partners analysis of Trade Me Job Ads and MSD Work Ready Job Seeker recipients by Territorial Authority



3. Wage inflation is a lagging indicator

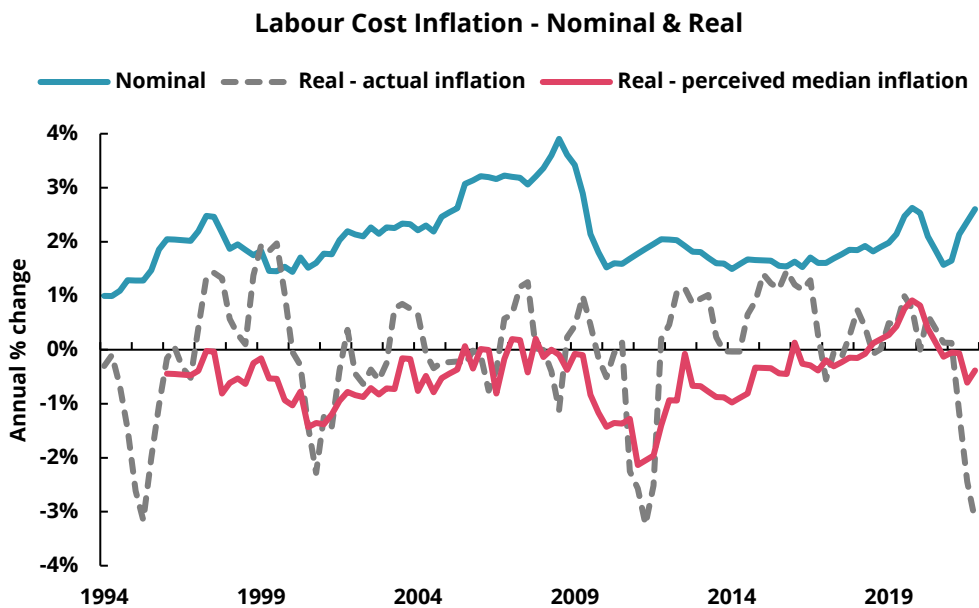
Labour shortages will drive up the cost of labour. While labour cost inflation has accelerated a little, it isn't nearly as high as in the last period of sustained labour shortages in 2005-2008. However, some industries are experiencing relatively high inflation.

Labour costs tend to reflect living costs and a relative scarcity of workers. The latter is extremely scarce.

Inflation has spiked in recent months, although inflation expectations have risen less so. Both inflation and inflation expectations are higher than current LCI inflation. This means the real spending power of these jobs has fallen and a strong labour market will strengthen the position of workers in bargaining for higher jobs or seeking employment with better prospects.

Labour market conditions typically take around 1.5 years to feed through to LCI inflation. Labour cost inflation is a lagging indicator of labour shortages. We expect labour cost inflation to accelerate in the second half of 2022, to the fastest pace since the 2005-2009 high inflation environment.

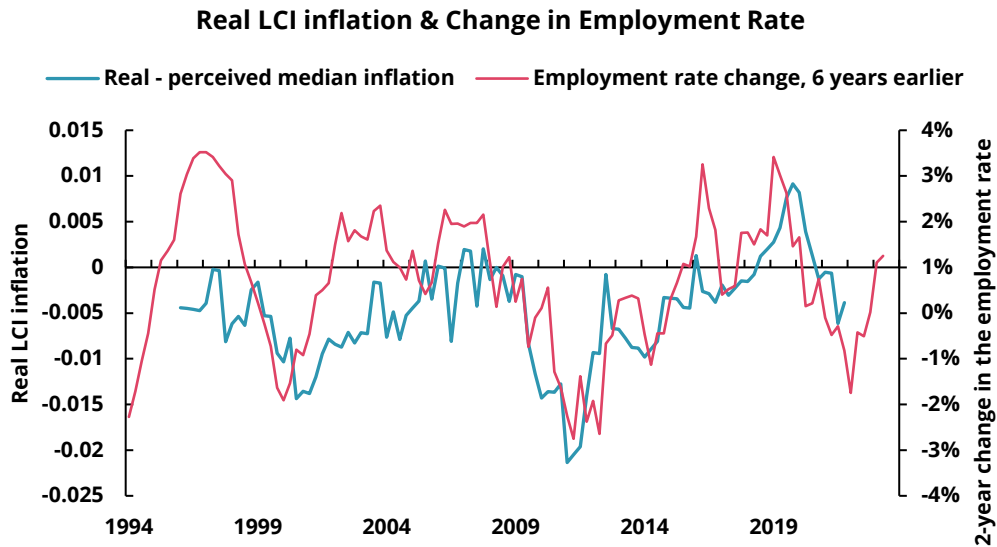
Figure 8: Labour cost inflation is accelerating...



Source: Statistics New Zealand, RBNZ



Figure 9: ...but it takes around 1½ years for labour market conditions to feed through to labour cost inflation



Source: Statistics NZ, RBNZ, Sense Partners

Figure 10: Wage inflation is accelerating from pandemic lows

Sector	Industry	Difference from median of last two decades	
		Dec-21	last two decades
Primary	Agriculture	2.3%	Blue bar
	Forestry & Logging	1.9%	Blue bar
	Related Support Services	3.3%	Blue bar
	Agriculture, Forestry & Fishing	2.5%	Blue bar
	Mining	2.7%	Blue bar
Manufacturing	Manufacturing	2.6%	Blue bar
Intermediate	Electricity, Gas, Water & Waste	4.6%	Blue bar
	Construction	3.2%	Blue bar
Trades	Wholesale Trade	2.5%	Blue bar
	Retail Trade	2.5%	Blue bar
	Accommodation & Food Services	5.0%	Blue bar
	Retail Trade & Accommodation	3.4%	Blue bar
Logistics	Transport, Postal & Warehousing	3.0%	Blue bar
	Information Media & Telecommunications	1.4%	Blue bar
Services	Financial & Insurance	1.9%	Blue bar
	Rental, Hiring & Real Estate	1.5%	Red bar
	Professional, Scientific & Technical	2.4%	Blue bar
	Administrative & Support	3.4%	Blue bar
	Professional, Scientific, Technical, Administrative & Support	2.7%	Blue bar
Government	Local Government Administration	2.3%	Blue bar
	Central Government Administration, Defence & Public Safety	1.6%	Red bar
	Public Administration & Safety	1.8%	Red bar
	Education & Training	2.4%	Blue bar
	Health Care & Social Assistance	2.9%	Blue bar
Other	Arts & Recreation	2.3%	Blue bar
	Other	2.5%	Blue bar
	Arts, Recreation & Other	2.4%	Blue bar
Total	All	2.6%	Blue bar

Source: Statistics New Zealand



4. Where the increase in employment came from

We can decompose employment growth into three key components:

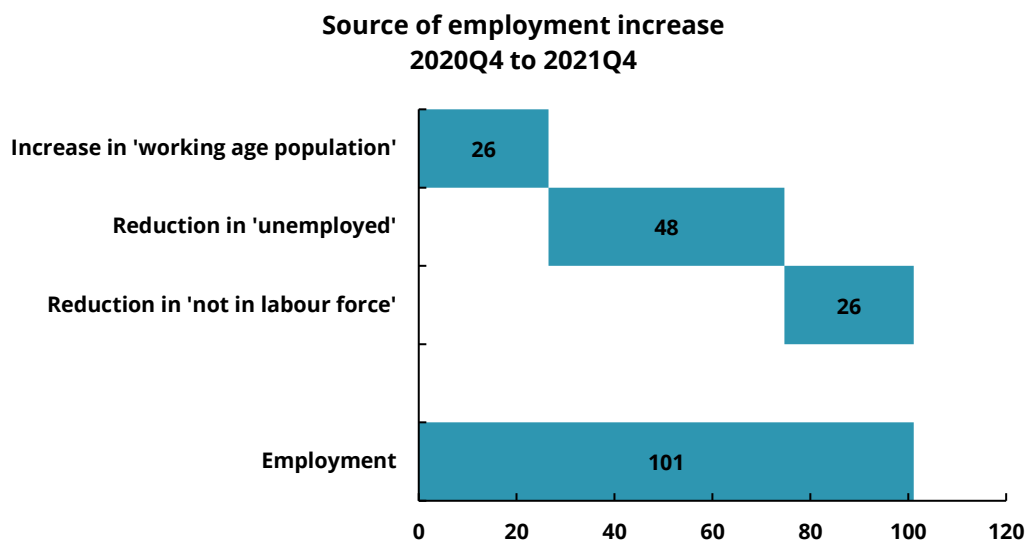
- Working age population growth
- Reduction in unemployed
- Reduction in people not looking or not available for work

Employment rose by just over 100,000 people in 2021. About half of that came from a reduction in unemployment and a quarter each from an increase in more people of working age (population growth and more young people joining the working age) and people entering, from being previously out of, the labour force often to study, looking after others, or being retired.

These are net flows. There are lots of movements of people in and out of work, in and out of the labour force, and the employed changing jobs. The net changes help us think of pools of people who could be brought into the labour market. People changing jobs just means swapping one vacancy for another.

The figure below shows the composition of employment growth over the year to December 2021. The figure on the next page shows the composition of employment growth by component since 1987.

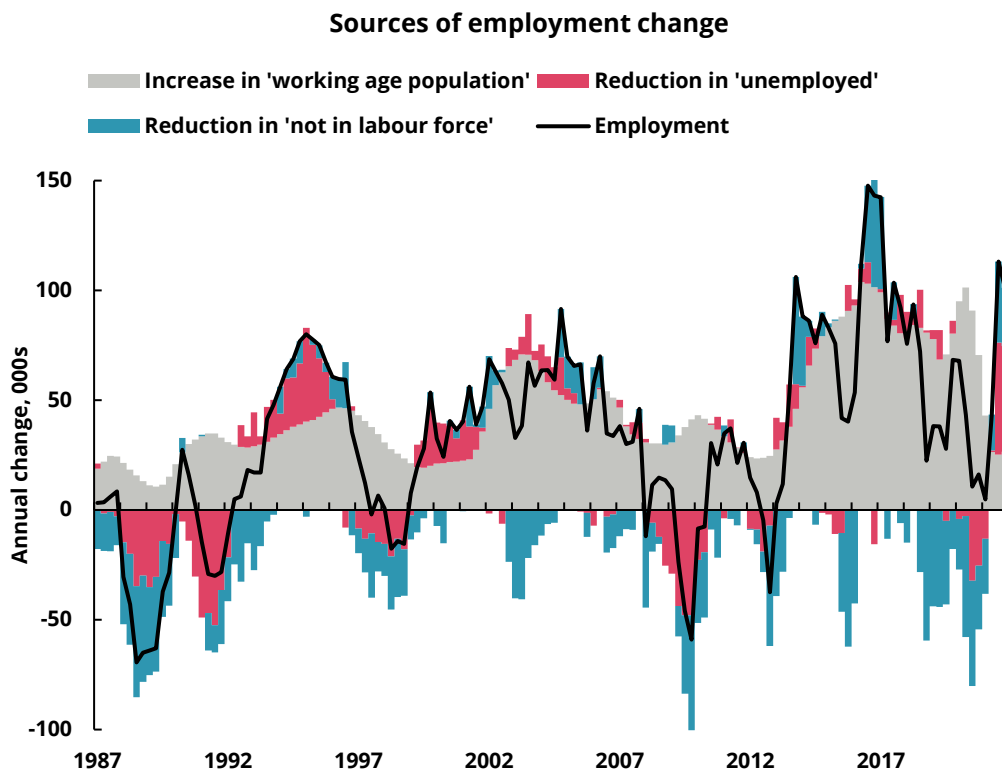
Figure 11: Employment growth reduced unemployment, but can it continue?



Source: Sense Partners analysis of Statistics New Zealand



Figure 12: Employment growth has fed off a growing pool of working age people



Source: Sense Partners analysis of Statistics New Zealand data

Population growth has supplied much of our labour needs until now

Employment growth has largely been filled by growth in the working age population. While some of this is natural (children becoming working age and older people retiring), the largest component has been net migration.

Population growth has slowed since the pandemic started. Net migration of New Zealanders turned slightly positive (from negative) as people returned and fewer left. Net migration of non-New Zealanders (largest share on work visas) slowed sharply and turned negative.

Jobless getting jobs

The number of unemployed people has fallen to a historic low. This means jobless people who were available and looking have found jobs. This could continue for longer but will get harder as the pool of unemployed is now very small and could reflect frictional unemployment and some long-term unemployed. This requires active labour market policies to close skills and location mismatches.



People entering the work force, but fewer studying

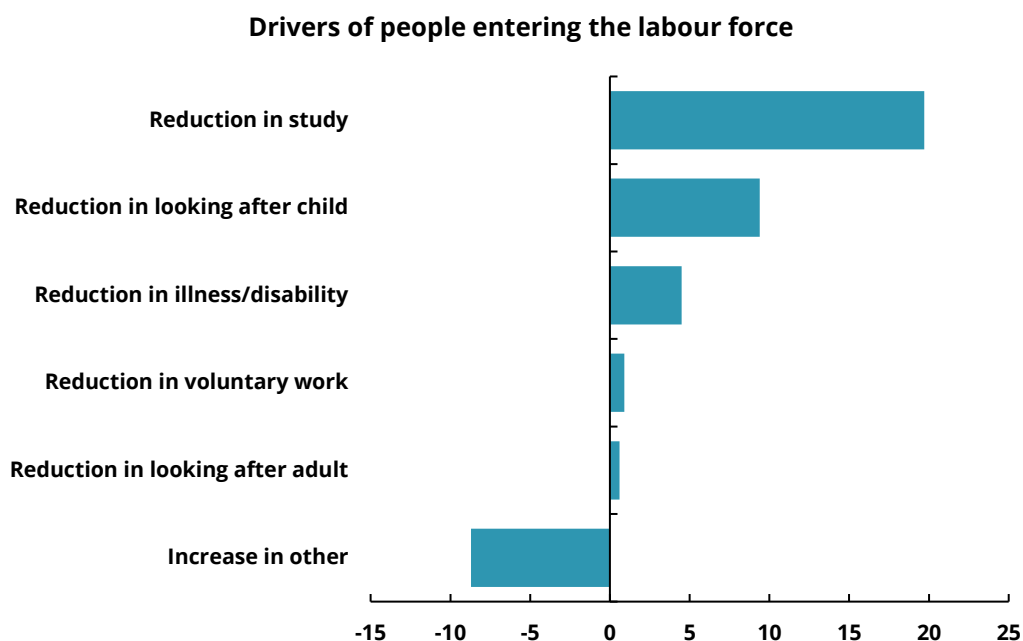
Of the 4.1 million people of working age (over 15) 1.2 million people do not work and are not looking for work. There are many reasons, including study, looking after children or other family members, retirement, illness or disability and voluntary work.

In 2021, about 26,000 people moved from their non-labour force activities into the labour force. The biggest reduction was the number of people in study, followed by those looking after children. A reduction of people in study can meet short term vacancies but can intensify skills shortages in the future. It can also lower the lifetime income potential of those abandoning study. The number of those in study and not in the labour force (that is not already working part- time) is at near record lows as a share of the population, despite strong enrolments.

If the number of those in study or those looking after children and other family members did fall to record lows, then an additional 30,000 people could be available for work. But with around 20,000 people retiring each year, the net impact would be small.

To be able to use our currently inactive population, we need to increase access to and reduce the cost of childcare, reduce abatement rates for welfare and family support, increase wages and improve working conditions. But the number of additional workers might still be small.

Figure 13: more people are quitting their studies



Source: Statistics New Zealand, Sense Partners



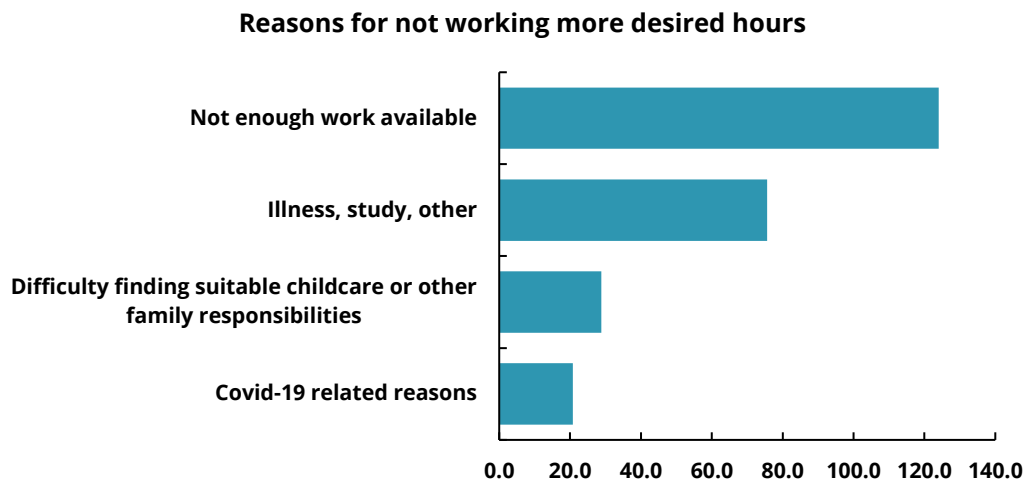
5. Looking ahead

Near record job ads show that businesses need more workers to meet demand in the economy. To date, this demand has drawn on the pool of unemployed, and drawn in more people to work, primarily from study. But this is not a limitless supply. There are a range of variables for business to consider.

Make better use of part-time employees

Employers can make better use of their existing workforces. Many in part-time work report wanting more hours. Two barriers can be solved: offering enough hours and offering support with childcare (for example with a childcare allowance or flexible working conditions). This could yield up to 25,000 FTE, but much of it in industries such as retail and hospitality where demand is patchy due to increasing covid infections.

Figure 14: Many part-time employees want more hours



Source: Statistics New Zealand

Work with MSD to access work ready Job Seeker recipients

There are around 105,000 work ready Job Seeker recipients, around 33,000 more than at the beginning of the pandemic. Businesses can access these workers and support to place them in work. MSD should work to improve job matching and investment in skills development to take advantage of the strong demand for workers.

Retain older workers, increase pay, more flexibility, more investment in training

Businesses can continue to attract staff by offering higher pay, but unless this brings new people into the labour force, it will not reduce vacancies. Improvement in working conditions, particularly flexibility of hours and location (e.g. working from home) might encourage more to start working. Childcare allowances or pooled childcare facilities



across businesses might help attract new people into work. With the limited supply of ready qualified or trained immigrants, businesses will need to invest in education, training, and career progression. These however will take time to bear fruit. Retaining older workers will also help, although only around 20,000 people leave work for retirement each year.

Border and immigration settings

New Zealand has long used immigration policies to tap into a global labour market. But the outlook is unclear.

Migration of New Zealanders might turn negative again

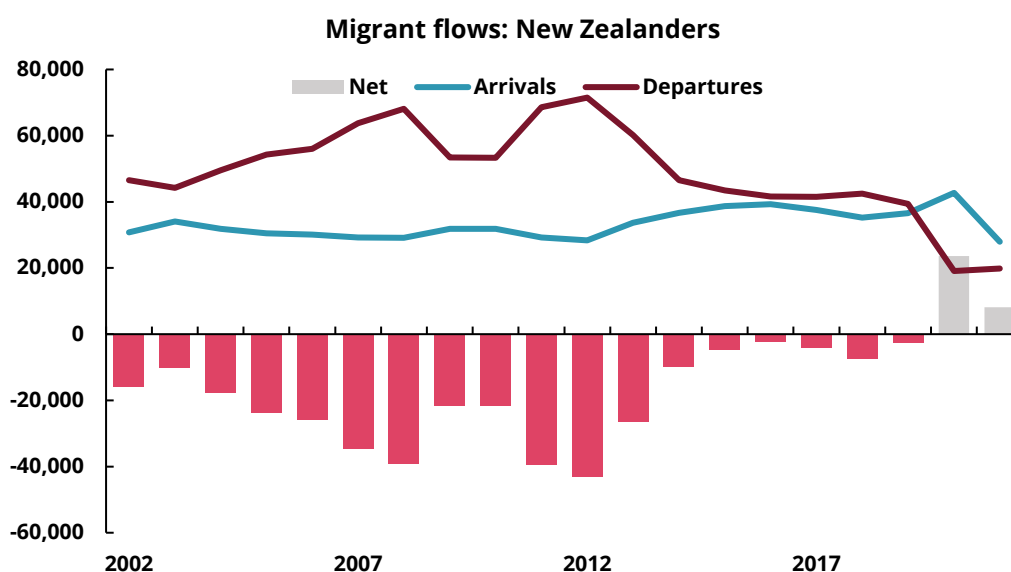
The net migration of New Zealanders turned positive with the pandemic. Although the return of New Zealanders slowed a little, departures slowed sharply. But the outlook is now uncertain. Pent-up demand for both to return and leave New Zealand will on balance lead to the net outward migration of New Zealanders once the borders open.

Limited quarantine capacity meant that many New Zealanders wanting to return could not do so easily. While more of the diaspora (estimates vary but could be as high as 1 million) might choose to come back once borders open, this is difficult to predict.

The pandemic and closed borders meant that fewer than usual New Zealanders went overseas (permanently or for long-term). It has been a rite of passage for many young New Zealanders to travel and see the world, but also to access economic opportunities (mainly in Australia, UK, Canada and USA). In those countries incomes are higher, the cost of living lower and career prospects broader and deeper.

The pandemic and closed borders have meant a pent-up demand of around 35,000 New Zealanders to return, 50,500 to leave, and a net outflow of 16,500 people.

Figure 15: There is a pent-up demand to OE, live and work overseas



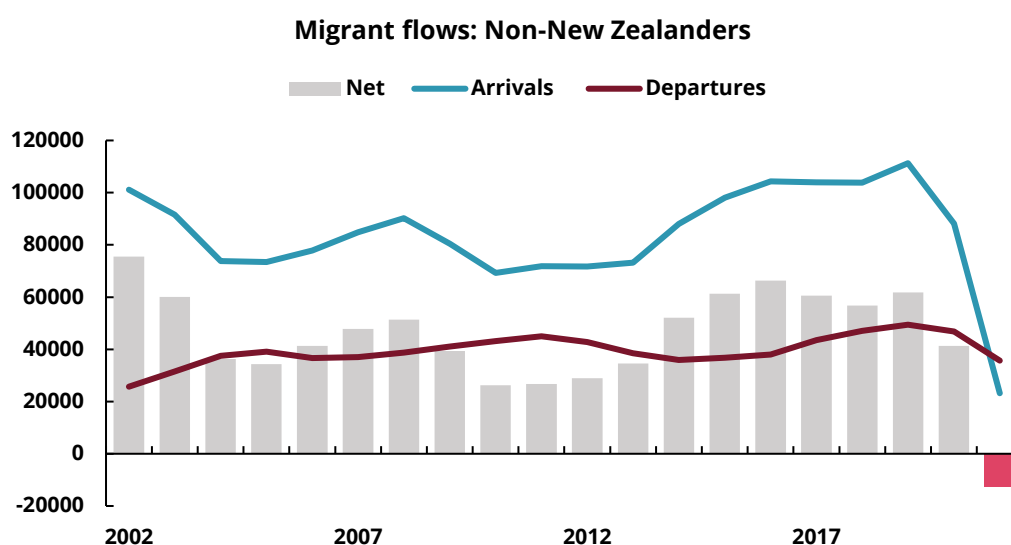


Source: Statistics New Zealand, Sense Partners

Migration of non-New Zealanders is a big unknown

Inward migration of non-New Zealanders slowed sharply during the pandemic. Departures slowed, but not significantly. The net effect was a reduction of the short-term visa population in New Zealand. There are 21,000 fewer work visa holders and 13,000 fewer student visa holders many of whom work part time during study, and around a third of whom stay on in New Zealand to work and live. Retaining those with student and work visas will help to retain some of this workforce potential.

Figure 16: Inflow of migrants slowed sharply



Source: Statistics New Zealand

Future immigration policy key uncertainty

The biggest uncertainty is around the current 'immigration rebalance' the government is designing. We do not explore the pros and cons here, but the data clearly show that our labour market has long been used to tapping into the global labour market through the immigration channel.

A sudden stop during the pandemic saw increased employment of those unemployed and those not in the labour force. But this may have unintended consequences as more leave study, sowing seeds of future skills shortages and lower lifetime income prospects.

As the number of people not in work falls to record lows, it will get harder to grow employment and the economy through the above sources. Over time, a shift towards greater use of technology and the employment of more skilled workers will be the rational response to labour shortages. However, this will take time and in the in-between period labour shortages will increase considerably and labour constraints will limit economic growth and stoke inflation.





Gradual opening of the border

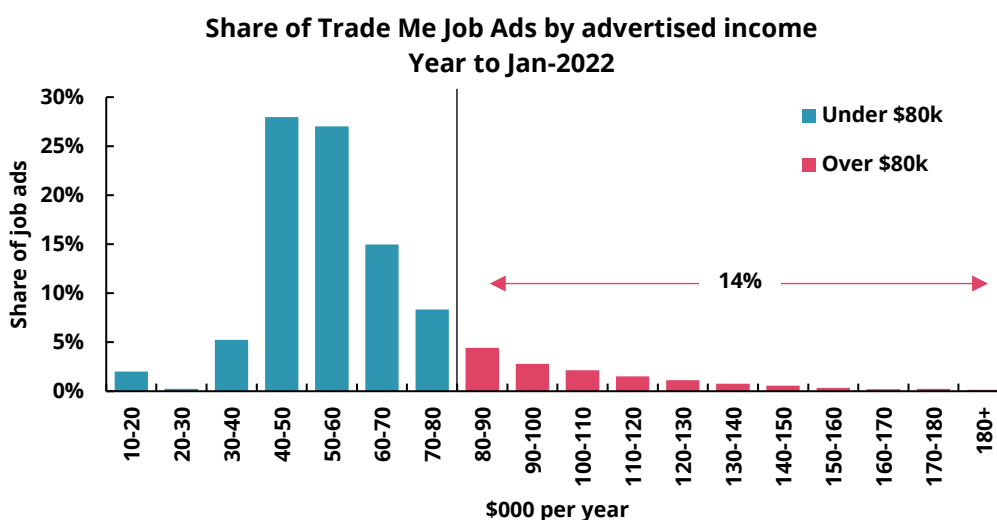
The government will allow immigration of highly paid workers from early 2022, defined as those earning 1.5x the median income. There will be a gradual opening-up to working holiday visa holders (who often work in retail, hospitality, horticulture, and viticulture) and RSE workers. This will meet some of the demand in those sectors.

It is not clear if the income criterion will continue to be used for future work visa requirements or new criteria or quotas introduced. The government has been pursuing an 'immigration rebalance' for some time.

An income criterion will limit the global labour pool to a handful of industries

According to Statistics New Zealand, the median earnings from main wage and salary jobs was \$1,093 per week, or \$56,836 a year. So, a 1.5x median criterion means migrant workers earning over \$85,000 will be allowed earlier entry.

Figure 17: Immigration income criteria will mean 14% of vacancies will be eligible



Source: Sense Partners analysis of data supplied by Trade Me

While there are acute skill shortages, there is also a generalised labour shortage across skill and income brackets. Our analysis of Trade Me Job Ads shows that 86% of job listings in the last year were for an advertised salary of \$80,000 or less. Or, 14% of vacancies meet the immigrant pay criterion of 1.5x median income. For comparison, 13% of tax-payers earn more than \$85,000 a year. So, vacancies are widespread across incomes, qualifications, and industries.

Similarly, when we map annual median income by industry and qualifications (a good proxy for income potential), we find only a handful of industries and qualifications qualify under the income criterion.



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Figure 18: A select few industries and qualifications will be eligible under the immigration income criterion

Highest qualification	No qualification	Lower secondary school qualification	Upper secondary school qualification	Post-school qualification on not elsewhere classified	Level 1-3 post-school certificate	Level 4-6 certificate or diploma	Bachelors degree and level 7 qualification	Postgraduate qualification	Total All Qualifications
Agriculture, Forestry and Fishing	49,000	50,000	52,000	53,000	60,000	64,000	66,000	86,000	57,000
Mining	..	..	..	..	..	100,000	..	..	99,000
Manufacturing	54,000	51,000	52,000	65,000	52,000	70,000	68,000	89,000	60,000
Electricity, Gas, Water and Waste Services	65,000	62,000	60,000	57,000	..	82,000	99,000	126,000	79,000
Construction	58,000	58,000	56,000	62,000	52,000	69,000	65,000	78,000	63,000
Wholesale Trade	52,000	55,000	56,000	72,000	49,000	67,000	75,000	82,000	62,000
Retail Trade and Accommodation	39,000	31,000	33,000	46,000	36,000	47,000	48,000	52,000	42,000
Transport, Postal and Warehousing	60,000	57,000	55,000	57,000	60,000	67,000	74,000	73,000	60,000
Information, Media and Telecommunications	..	..	..	73,000	..	80,000	65,000	73,000	72,000
Financial and Insurance Services	55,000	67,000	70,000	100,000	65,000	68,000	90,000	105,000	79,000
Rental, Hiring and Real Estate Services	45,000	65,000	53,000	52,000	53,000	58,000	60,000	59,000	55,000
Professional and Administrative Services	46,000	52,000	51,000	62,000	33,000	62,000	73,000	89,000	65,000
Public Administration and Safety	60,000	57,000	60,000	67,000	57,000	70,000	74,000	85,000	70,000
Education and Training	35,000	36,000	39,000	36,000	36,000	46,000	64,000	80,000	56,000
Health	43,000	42,000	43,000	49,000	47,000	48,000	59,000	73,000	52,000
Art, Recreation and Other Services	49,000	44,000	46,000	48,000	43,000	56,000	56,000	67,000	52,000
Not Specified	46,000	48,000	50,000	50,000	84,000	53,000	62,000	78,000	53,000
Total All Industry Groups	49,000	49,000	49,000	55,000	47,000	60,000	65,000	80,000	57,000

Key:

Income over median

Income over 1.5x median

Source: Sense Partners analysis of Statistics New Zealand 2021 Income Survey data

