



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

Labour market trends and opportunities: New Zealand and Taranaki

Presentation to the Venture Taranaki Future of Work Event, 23 June 2016

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Introduction

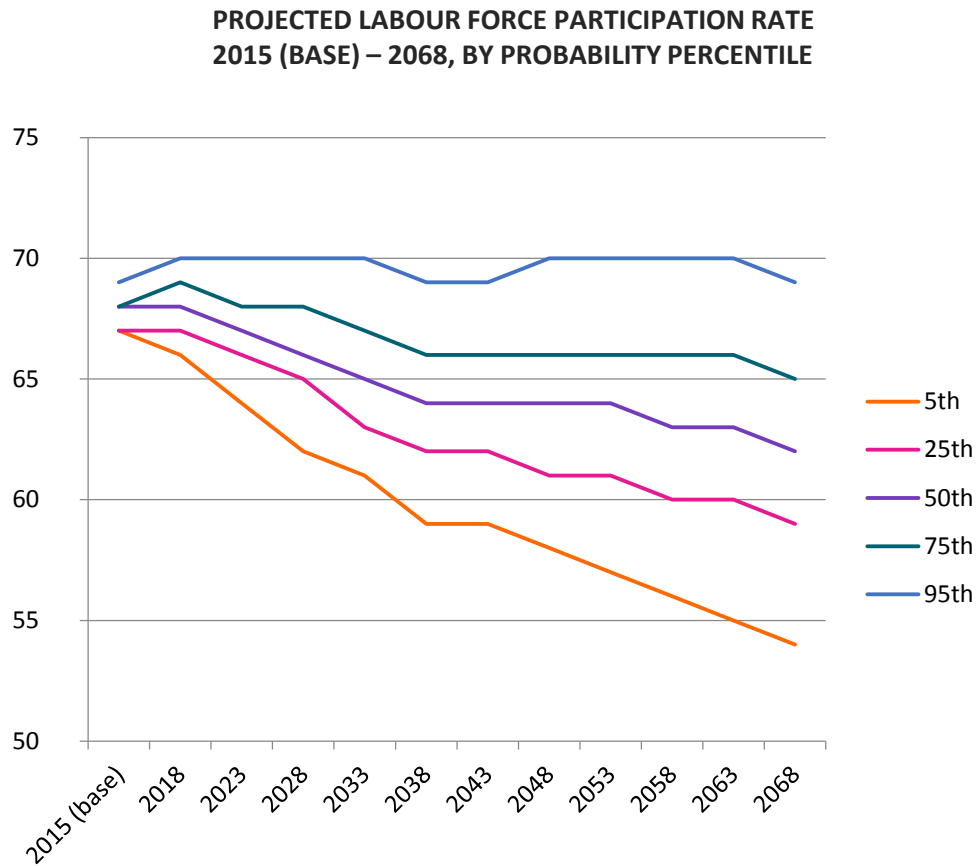
- The role and performance of the New Zealand labour market
 - Strong participation but relatively low productivity
 - Employment growth forecast, particularly for higher skilled workers
- How does Taranaki compare with the rest of New Zealand?
 - Differences in industry composition
 - Greater exposure to dairy, oil prices
- Global megatrends that impact business models and employment
 - Technology, globalisation, demographics
- Plausible outcomes and possible responses
 - No consensus yet about long term implications
 - Consensus emerging around issues to be considered (by government, regions, firms, workers)

New Zealand's labour market has been performing relatively well

- New Zealand's economy performed better than many after the Global Financial Crisis
- Unemployment rate is trending down towards MBIE target of 4%
- Our current unemployment rate of 5.7% ranks us 12th in the OECD (lower than the US and UK but higher than Australia)
- Strong employment growth, but not enough to absorb large increases in participation
- Our high participation and labour utilisation has helped sustain economic growth in New Zealand
- In the longer term, we can expect reduced labour force participation, so increasing our productivity is important



In the long term, we expect labour force participation to reduce



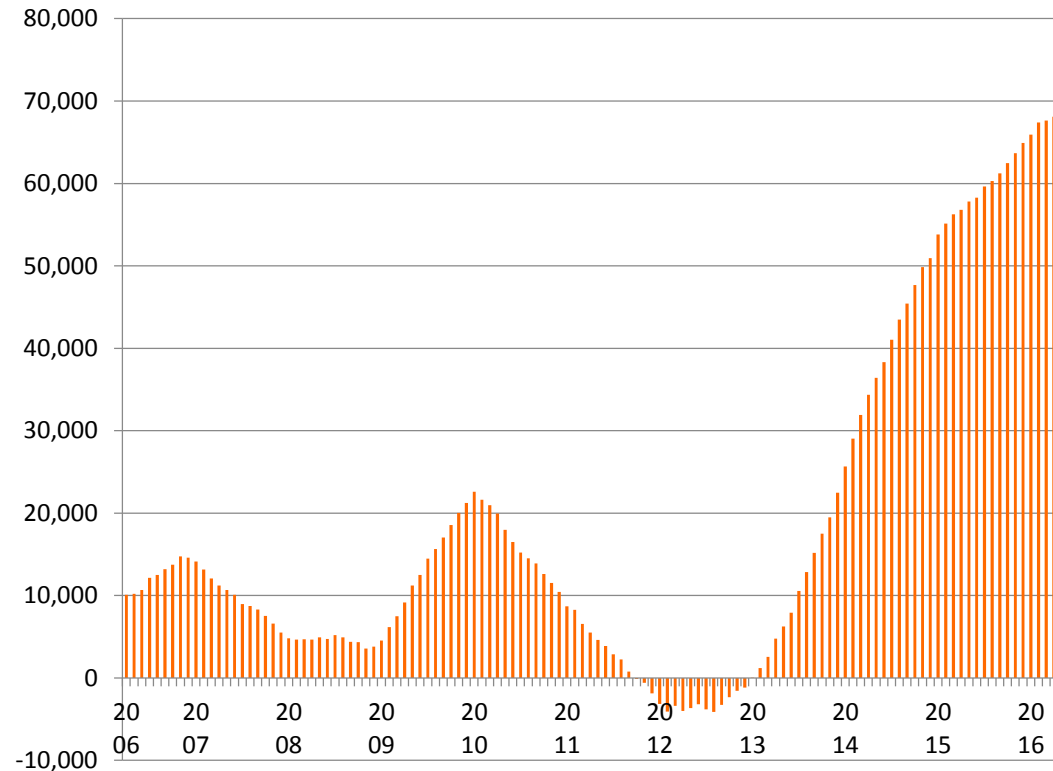
Source: Statistics New Zealand National Labour Force Projections: 2015 (base)-2068

- Like most developed countries, we face an ageing population
 - People aged 65 and over projected to increase from under 20% to around 30% by mid-century
- Labour force participation rate is projected to start falling as more older workers leave than younger workers enter the labour force
- Maori and Pacific populations are younger on average, so will make up a greater proportion of the labour force than now
- There are several possible responses to a reducing labour force
 - Raise productivity of available workers
 - Maximise participation (particularly of women and older workers)
 - Use technology to replace labour (e.g. Japan)
 - Increase immigration

Migration is becoming increasingly significant

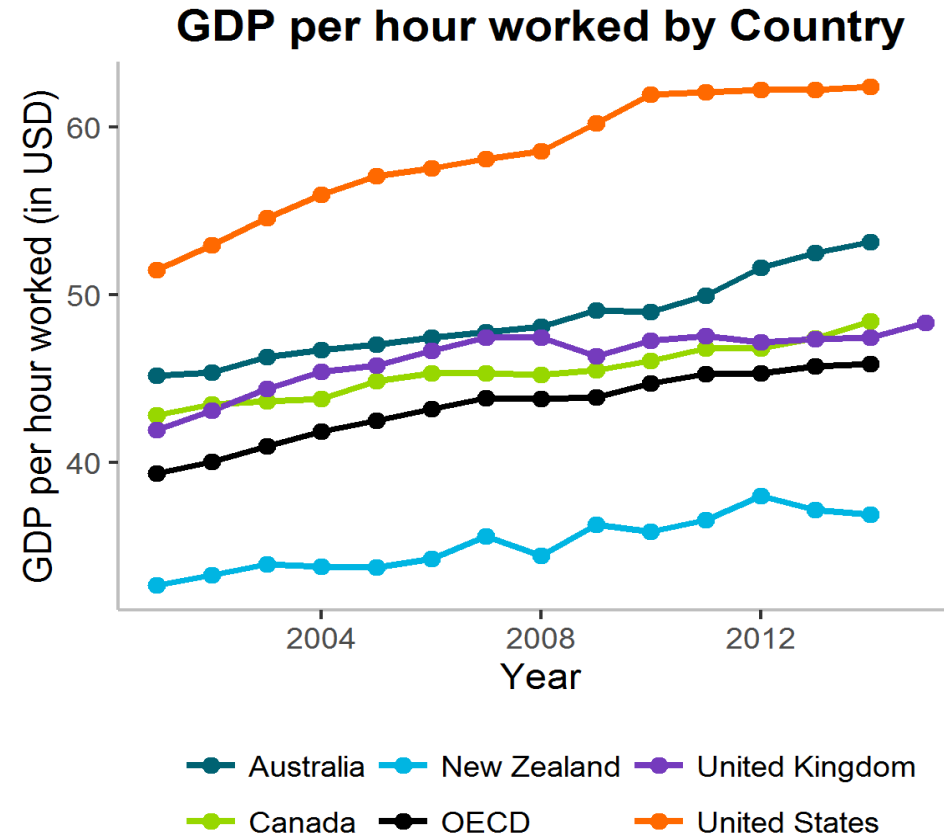
- Migration has been an important contributor to New Zealand’s population and labour force
 - A quarter of the labour force is foreign born
 - In 2015 net migration was around 49,000 while natural increase was around 29,000
- Migration flows have been significant in recent years – both foreign nationals and New Zealanders returning home
- Inflows of permanent migrants are fairly stable but inflows of “long-term temporary” (e.g. students, workers) have grown
- Fewer New Zealanders are leaving
- There is some movement between regions (mainly adjacent ones)

Permanent & long-term migration
Annual net migration



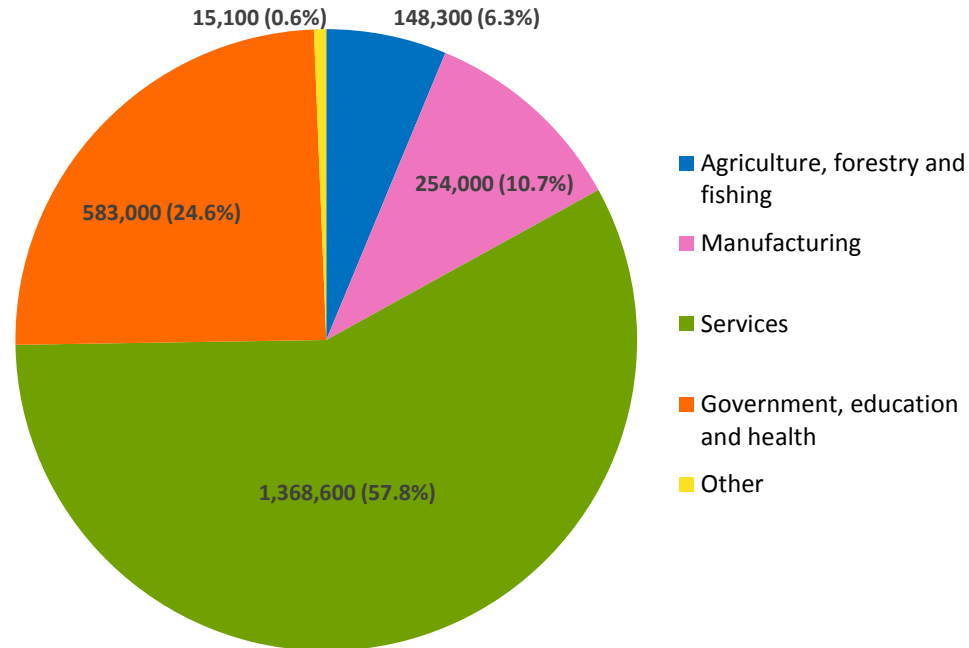
Labour productivity gap with other OECD countries persists

- New Zealand's productivity has been falling behind other OECD countries, both in levels and growth, for decades
- Productivity at the industry level varies widely - service industries that use ICT intensively have been key drivers of productivity growth in New Zealand
- OECD estimates suggest that most of the productivity gap between New Zealand and the OECD average may be explained by remote access to markets and low investment in innovation
- Number of people with degrees is three times the 1996 level, but we do not seem to be utilising this upskilling well



Employment is largely in the service sector

SHARE OF EMPLOYMENT BY INDUSTRY SECTOR
AVERAGE FOR YEAR ENDED MARCH 2016

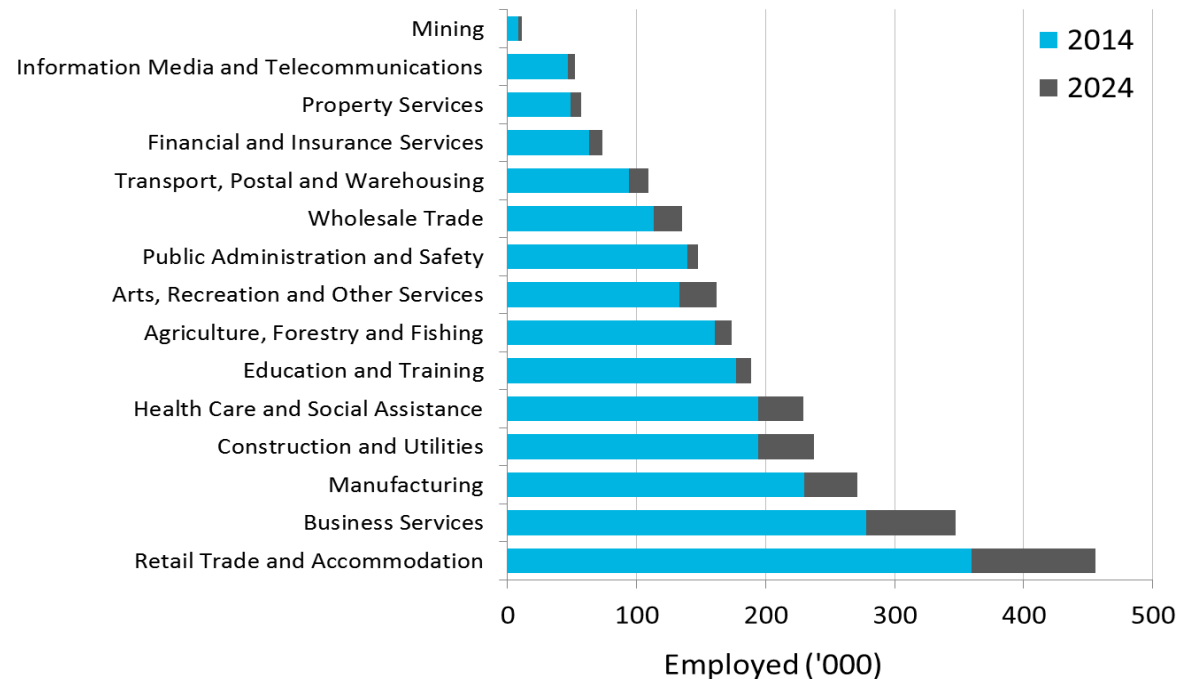


Source: Statistics New Zealand Household Labour Force Survey

- **Around 58% of employment is in the service sector, with another 25% in government services**
- **Agriculture employs around 6% and manufacturing around 11%**
- Over the past decade, the share of employment has risen for
 - Business services
 - Construction
 - Health and community services
 - Government administration
 - Hospitality
- The share of employment has fallen in
 - Agriculture
 - Wholesale and retail trade
 - Wood, paper, furniture manufacturing

Largest forecast employment gains in retail trade, business services

EMPLOYMENT & FORECAST EMPLOYMENT BY INDUSTRY SECTOR

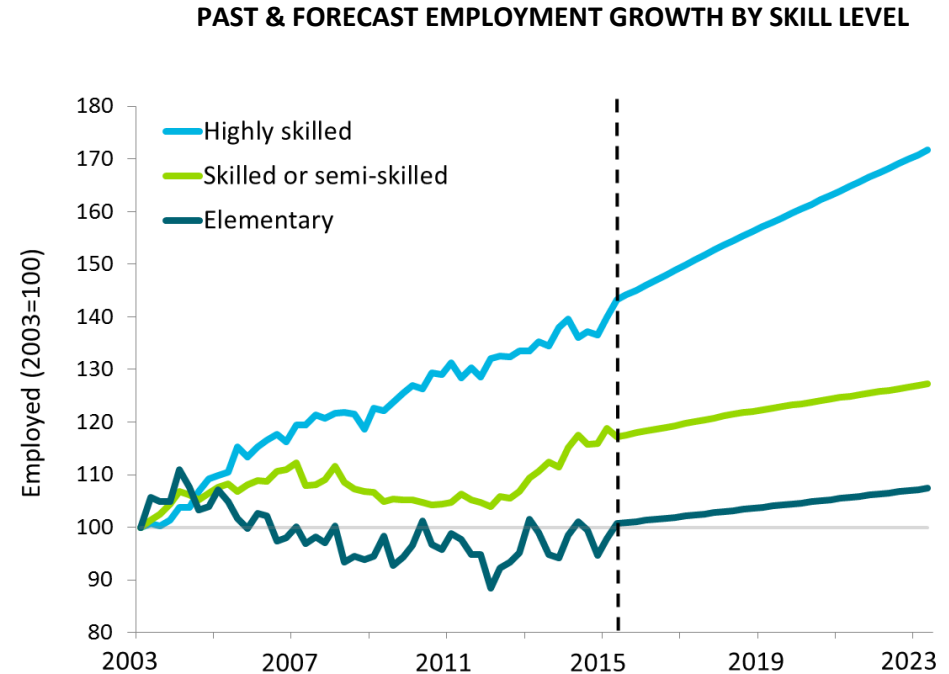


- The greatest employment gains are forecast for retail trade and accommodation, business services, and construction and utilities.
- This reflects the growing strength of tourism to New Zealand, continuing trends toward service-based roles, and the strength of the construction sector, especially in Auckland

Source: MBIE Medium-to-long-term employment forecast (Dec 2015).

Strong employment opportunities for highly skilled workers

- **Employment in highly skilled jobs continues to grow strongly**, reflecting the increase in degree-or-higher qualified workers
- Employment in skilled or semi-skilled jobs has increased strongly since 2012, probably due to strong growth in tourism and construction
- In contrast, elementary occupations are fairly flat
- Based on current economic structure and projected growth, employment at all skill levels is projected to grow
- Projected growth is stronger as skill level rises
- But this does not take account of the effect of technological change on the economy



Highly skilled = managers, professionals. (ANZSCO 1-2)

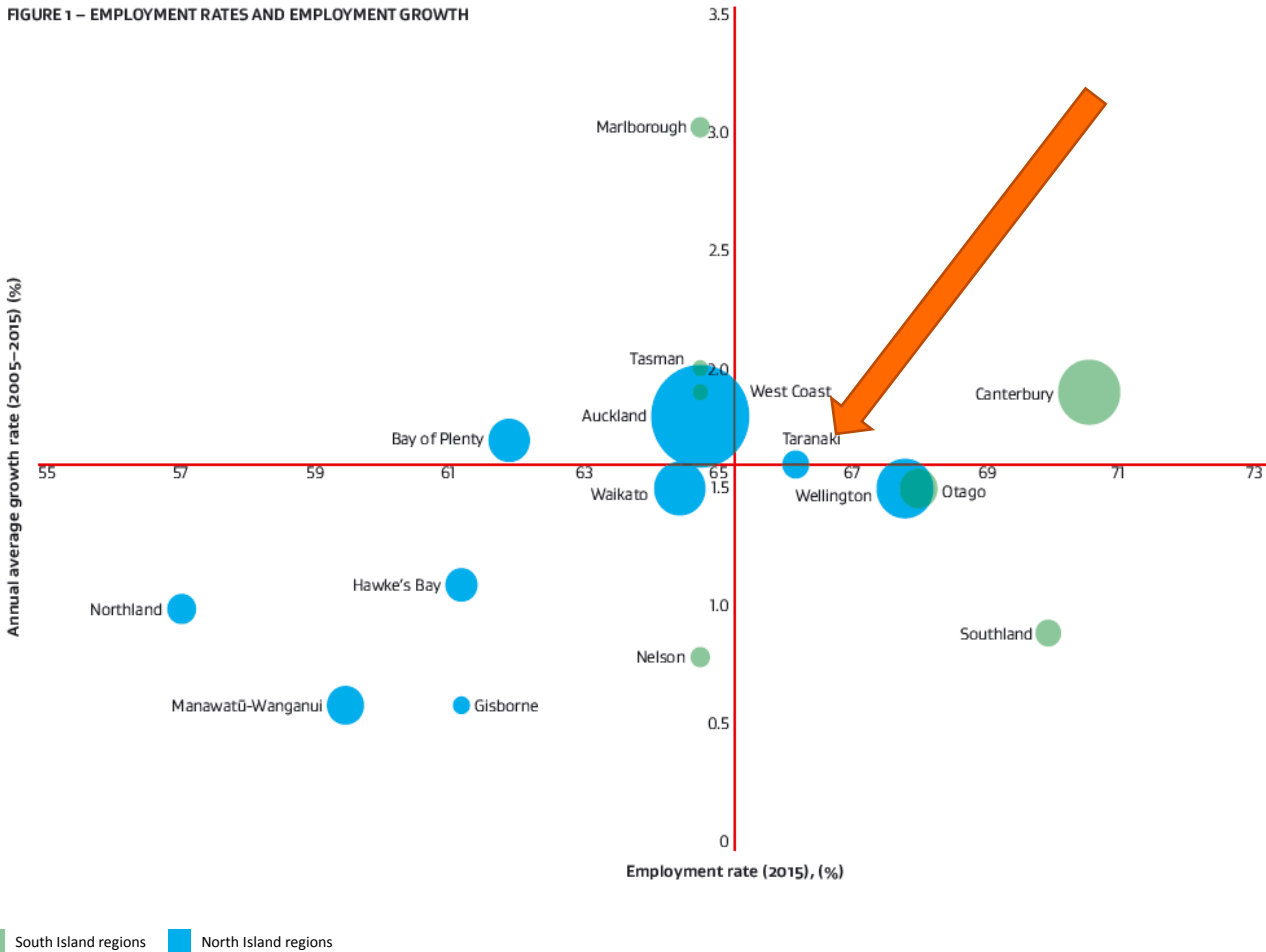
Skilled or semi-skilled = technicians & trade workers, community & personal service workers, clerical & administrative workers, sales workers. (ANZSCO 3-6)

Elementary = machine operators & drivers, labourers. (ANZSCO 7-8)

Significant regional differences in employment

- Regional differences in employment rates and growth reflect different industrial structures
- Regions with large primary sectors tend to employ more lower and medium skilled workers; regions with large service sectors employ more high skilled workers
- Employment growth for lower-skilled occupations has been modest or in decline, across all regions
- Availability of skilled people in regional labour markets can be a constraint on growth

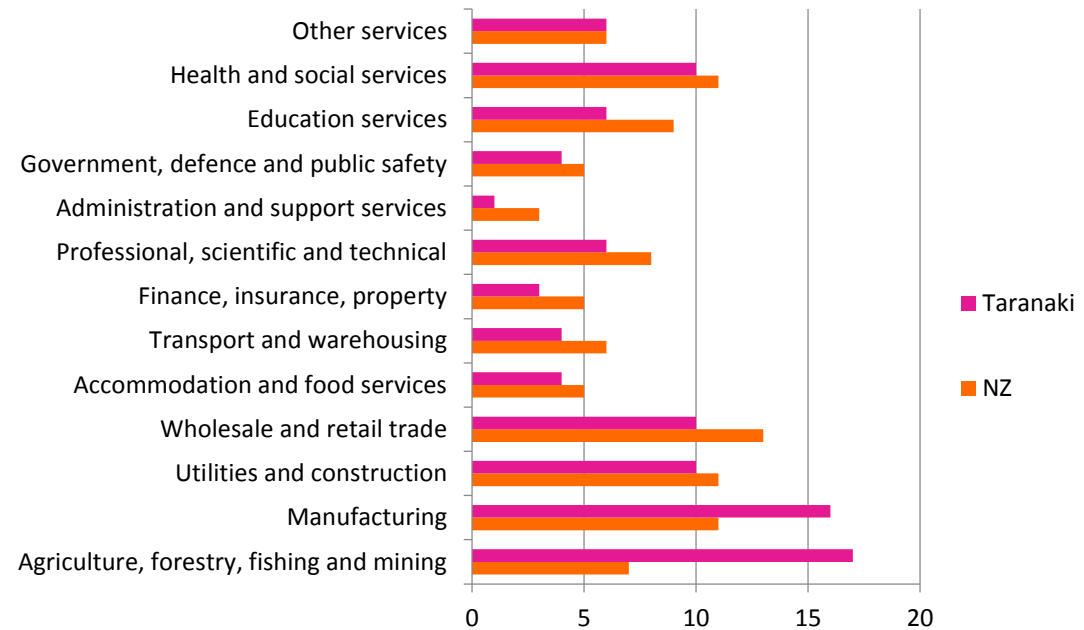
FIGURE 1 – EMPLOYMENT RATES AND EMPLOYMENT GROWTH



Source: MBIE (2015) *Regional Economic Activity Report*

Taranaki is different to other regions

- Taranaki had been performing more like larger urban centres than other regions
 - High employment rate
 - Relatively high employment in skilled occupations
 - Relatively high mean household income
- This reflects strong historical performance of
 - Energy extraction and related manufacturing
 - Primary industries (dairy)
- Taranaki has a larger share of employment in manufacturing than NZ overall
- Recent fall in employment reflects exposure to lower dairy, oil prices



- MBIE forecasts 2.3% annual average employment growth for Taranaki for 2016-19 (2.1% for New Zealand)
- Growth in construction, business services, health and community services; agriculture numbers static (exposure to dairy)

We are facing several significant global megatrends

- A **megatrend** is a deep-set trajectory of change over a 5-20 year time period
- Technological trends
 - Explosion in device connectivity (Internet of Things), ability to collect and analyse large quantities of data
 - Rapid development in automation (e.g. use of robots in manufacturing, machine learning/artificial intelligence)
 - Additive manufacturing (3D printing), driverless vehicles...
 - But also nanotechnology, genetics, energy and environmental technology
- Globalisation trends
 - Increased global competition
 - People and firms can be more mobile
- Demographic trends
 - Ageing populations in developed countries, but large young, increasingly skilled populations in developing countries
 - Increasing migration (temporary and permanent)
 - Long-term drift from regions to cities (growth of global megacities)

How they will play out remains highly uncertain

- We are already seeing some dramatic changes
 - Online intermediaries – Uber, AirBnB, Zealancer, Builders Crack
- However, the longer term implications remain highly uncertain
 - Very different future scenarios have been identified, and there is no consensus yet about what is most likely
 - Pace of technological change depends on what is technically possible and how institutions (laws, social norms, firms) adapt
- There is a lot of international interest in these megatrends (e.g. OECD, ILO, World Economic Forum)
- What seems plausible at this stage is:
 - Firms and industries may have to adopt different business models to remain competitive
 - Economic activity or employment may decrease in some areas, but there will be new opportunities created by technology, or in response to changing demographics and social preferences
 - Some occupations might disappear, but it is more likely that the nature of tasks within all jobs will change
 - Non-standard forms of business and employment relationships will become more standard
 - Workers will make more job and career transitions in their working lives, and those who will do well will have skills that complement change, rather than be substituted by it

What should we be thinking about?

- It is too soon to know exactly how to respond
 - Government agencies are following the international discussions, and trying to better understand how the nature of businesses and employment may change
 - Whatever happens, there are likely to be distributional impacts to be carefully managed
 - We are working with some industries on meeting labour needs (e.g. Sector Workforce Engagement Programme)
- Some of the policy responses the OECD has identified include:
 - **Education** - promote access to quality education for all, improve career guidance and recognition of skills, promote life-long skills development
 - **Welfare and employment** - remove barriers to youth employment, strengthen active labour market programmes, provide adequate work-related benefits and social protection
 - **Labour market regulation** – ensure that regulation facilitates labour mobility and reduces skill mismatch
 - **Business development** - lower barriers to competition, encourage development of digital economy
- Businesses need to think about adopting new technologies, and how this changes the way they do business, engage with customers and employ people
- For regions like Taranaki
 - The megatrends may change the industrial structure over time
 - Digital technology expands people's options about where to live and work, but ultimately, regions need to offer an attractive lifestyle
 - Technology may allow regional centres to reap productivity gains by closely linking to cities