



2 March 2006

SKILLS IN THE LABOUR MARKET - MARCH 2006

Background

- 1 This report summarises the latest information on skill shortages, primarily focused on December 2005 quarter information from the Quarterly Survey of Business Opinion (QSBO) from the New Zealand Institute of Economic Research (NZIER) and the Job Vacancy Monitor (JVM) from the Department of Labour. This is the first report to combine detailed analysis of the JVM along with other information on skills in the labour market.

Executive summary

- 2 There was further easing of skill shortage indicators in the December 2005 quarter, but the labour market is still tight as the unemployment rate remains at a 30 year low.
- 3 A small fall in job vacancies over the past year also suggests there has been an improvement in recruitment conditions for employers. None of the three skill levels recorded growth in vacancies in the year to December 2005, with 'skilled' vacancies (eg trade workers) particularly weak. The Auckland region drove the national decline in job vacancies over the past year.
- 4 Skill shortages are likely to ease slightly further over the coming year. The key driver of this expected easing will continue to be the slowing of growth in the economy and in employment. Forward-looking indicators of employment in February 2006 were the lowest in over 5 years.

Table 1: Key skill shortage indicators

| | Sep 05 | Dec 05 |
|---|--------|--------|
| Skilled staff difficulty ^a | 43 | 33 |
| Unskilled staff difficulty ^a | 23 | 17 |
| Labour constraint ^b | 20 | 19 |
| Job vacancies ^c | 2 | -4 |

^a net % of firms reporting difficulty finding staff

^b % of firms with labour as main constraint

^c annual % change in job vacancies

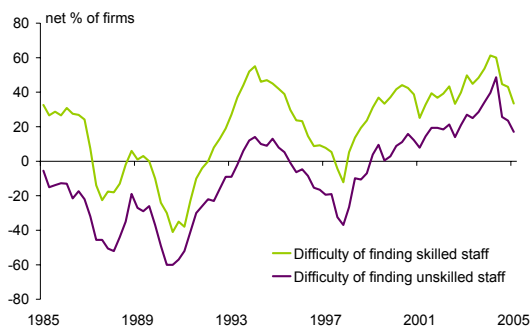
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Quarterly Survey of Business Opinion

Skill shortage indicators ease from extreme levels of early-2005

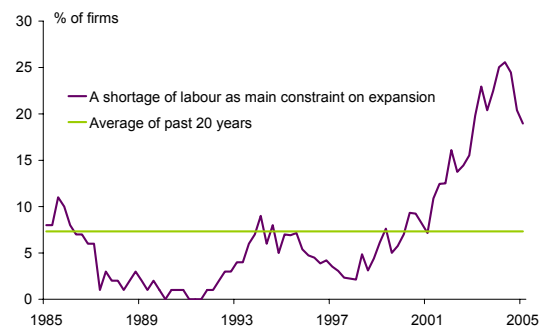
- 5 ***The extent of skill shortages eased in the December 2005 quarter*** as falling economic growth has slowed employment growth from 4.4% in the year to December 2004 to 1.5% a year later. Despite this lower growth, ***the labour market remains relatively tight for now as the unemployment rate was still at an equal 20-year low of 3.6% in the December 2005 quarter.***
- 6 The skill shortage indicators from the QSBO are relatively high, but well below 30-year peaks of late-2004 and early-2005:
- A net 33% of firms had difficulty finding skilled staff in the December 2005 quarter (*Figure 1*). This is almost half the net 61% in the same quarter a year earlier and is also well below the average of the past six years of a net 42%.
 - The difficulty of finding unskilled staff also fell, down to a net 17% of firms at the end of 2005 from a net 49% at the start of 2005 (*Figure 1*). Despite the large fall, this remains quite a high figure, just short of the average for the past six years of a net 19%.
 - A shortage of labour was the main constraint on expansion for 19% of firms at December 2005 (*Figure 2*). Although down from 20% in the previous quarter and 25% a year earlier, it still exceeds an average for the past six years of 15% and the 20-year average of 7%.

Figure 1: Difficulty of finding skilled and unskilled staff, 1985-2005



Source: Quarterly Survey of Business Opinion, NZIER

Figure 2: A shortage of labour as main constraint on expansion, 1985-2005



Source: Quarterly Survey of Business Opinion, NZIER

- 7 ***Building continues to suffer the most from skill shortages, with a shortage of labour the main constraint for 34% of builders at December 2005.*** This has fallen from 46% a year earlier, perhaps caused by lower growth in building work or easier recruitment conditions (construction employment rose 6% in the year to December 2005). Shortage indicators for merchants (wholesale and retail) were largely unchanged over the past year.

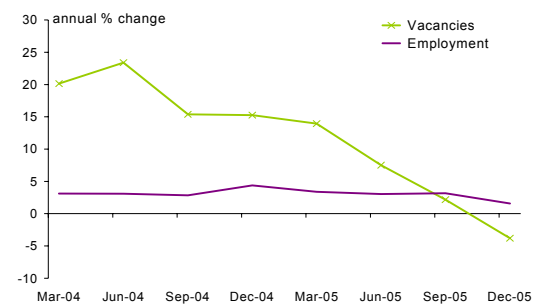
- 8 Supporting the QSBO findings, **skill shortages topped the list of problems for firms with fewer than 20 staff** for the 8th consecutive quarter, according to the National Bank Small Business Monitor. A lack of skilled employees was the main problem for 19% of firms at December 2005, down from 23% at March 2005 but ahead of regulation at 17% and tax burden at 15%.

Job Vacancy Monitor

National trends show improving recruitment conditions for employers

- 9 **Recruitment conditions for employers continued to improve in the December quarter**, according to the Job Vacancy Monitor (JVM). The JVM is a count of advertised vacancies in 25 daily newspapers. It shows that job vacancies in the December 2005 quarter were 4% lower than in the same period a year earlier. This is the first quarter since the inception of the JVM that negative annual growth was measured. Growth in job vacancies has trended down since the June 2004 quarter, when growth peaked at 23% (Figure 3).

Figure 3: Annual growth in job vacancies and employment, 2004-2005



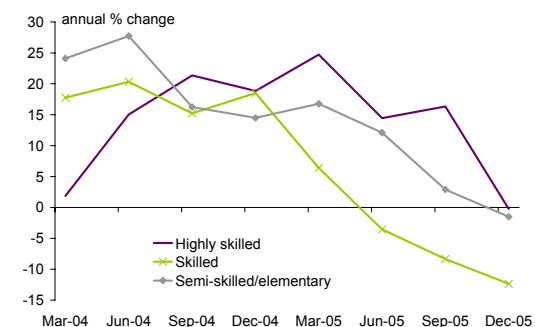
Source: Department of Labour, Statistics New Zealand

- 10 Growth in employment in excess of growth in vacancies is interpreted as a loosening of the labour market and vice versa (see *Appendix*). Job vacancy growth exceeded employment growth by 20 percentage points in the June 2004 quarter, suggesting the market was tightening at an extremely rapid rate. The turning point was in the September 2005 quarter, when employment growth marginally exceeded vacancy growth for the first time.
- 11 **Despite the recent easing of the labour market, the number of advertised vacancies remains high and indicates that the market is still tight** and recruitment conditions are difficult. In November and December 2005¹, there were 37% more vacancies than in the same period of 2002.

Trends in Occupations

- 12 The growth in vacancies has varied by skill level (Figure 4).² There was no growth in highly skilled vacancies in the year to December 2005, whereas negative growth was measured for both skilled (-12%) and semi-skilled/ elementary (-2%) occupations over this period.

Figure 4: Growth in vacancies by broad skill level, 2004-2005



Source: Department of Labour

¹ A two-month period is used as it enables the latest data to be compared with the start of the series.

² 'Highly skilled' is managers, professionals; 'skilled' is technicians/semi-professionals, trades; 'semi-skilled/elementary' is clerical, agriculture & fishery, services & sales, operator/assembler, elementary.

Highly skilled occupations

- 13 There was little or no growth in most highly skilled occupations: science, architecture and engineering professionals (-8%), health professionals (-11%), teaching professionals (-6%) and accountants and auditors (-2%). Only managers (4%), business and legal professionals (4%) and the small 'other professional' categories measured positive growth.
- 14 Prior to December 2005, the labour market for highly skilled occupations had been tightening for six successive quarters.

Skilled occupations

- 15 The labour market for skilled occupations (associate professionals, technicians and trades persons) has been easing for three quarters. The fall in skilled vacancies has been led by: sales representatives, building trades and metal trades.
- 16 The number of advertised vacancies for sales representatives fell 29% in the year to December 2005. This may reflect businesses' reduced confidence in their own future economic activity as the economy heads into a slowdown.
- 17 Negative annual growth in vacancies for building trades was first measured in the June 2005 quarter and there was a 22% annual decline measured in the December 2005 quarter:
- a Demand for building trades has been stable over the past year despite continued employment growth in the construction sector as a whole. This demand seems to reflect a change in the composition of required skills as residential construction gives way to commercial construction (fewer tradespeople are required in commercial construction).
 - b Coupled with this stable demand has been an improved supply of building trades people. This has probably resulted from increased industry training and the movement of skilled staff into the construction sector from other parts of the economy in response to higher wages in construction.

Semi-skilled/elementary occupations

- 18 The December quarter was the first quarter in which negative growth in vacancies was measured for semi-skilled/elementary vacancies. Negative growth was measured for clerks (-2%), agricultural and fishery workers (-9%), plant and machine operators and assemblers (-6%) and elementary workers (-1%). The only major occupational group within this skill level measuring positive growth in vacancies was service and sales workers (2%).

Regional trends show Auckland driving overall fall in vacancies

19 The growth in advertised vacancies varies considerably across regions. *Table 2* shows that Gisborne (51%), West Coast (39%) and Waikato (23%) recorded the highest growth, while Marlborough (11%), Nelson-Tasman (-12%) and Auckland (-22%) recorded the largest declines.

Table 2: Annual growth in vacancies by region, December 2005 quarter

| | |
|--------------------|------------|
| Gisborne | 51% |
| West Coast | 39% |
| Waikato | 23% |
| Bay of Plenty | 13% |
| Taranaki | 6% |
| Northland | 5% |
| Wellington | 4% |
| Southland | 2% |
| Otago | 1% |
| Canterbury | 1% |
| Manawatu-Wanganui | -1% |
| New Zealand | -4% |
| Hawke's Bay | -4% |
| Marlborough | -11% |
| Nelson-Tasman | -12% |
| Auckland | -22% |

Source: Department of Labour

20 The rapid fall in advertised vacancies in Auckland has been leading the national decline (Auckland accounts for almost a quarter of total vacancies). The reasons for this decline are not immediately apparent, as Auckland has experienced moderate employment growth. New Zealand, excluding Auckland, was still measuring moderate (5%) growth in the year to December 2005 and 10 of the 15 regions were still registering positive growth. A sharp fall in vacancy growth in Nelson-Tasman has also contributed to the national level decline. During much of 2004, Nelson-Tasman experienced rapid growth in vacancies, but this became negative in early-2005.

Outlook

Skill shortages ease from a high level, but pressures will remain

- 21 Labour market conditions have improved considerably in recent years. The unemployment rate was an equal 20-year low of 3.6% and the labour force participation rate was the second highest on record in the December 2005 quarter. Wage growth has increased in response to this tightening of labour market conditions. Net migration inflows are much lower than in 2003, but they have stabilised at around 7,000 per annum over the past year.
- 22 ***Skill shortages have eased over the past year, mainly as a result of slowing economic growth.*** Higher labour force participation, net migration inflows, training, and wage growth also had a role in reducing shortages.
- 23 ***Lower economic growth will continue to dampen employment growth and skill shortages.*** The February 2006 National Bank Business Outlook shows a net 9% of firms expect a fall in staff numbers in the year ahead, the worst result since October 2000. Despite a small reversal of recent labour market improvement, ***there will be continued pressure in the short to medium term as unemployment remains at or below a relatively low rate of 4.5%.***

APPENDIX: INTRODUCTION TO SKILL SHORTAGES

- 1 A skill shortage exists when a lack of skilled labour is constraining the expansion of a firm at the going market wage. A skill shortage is a mismatch between the supply of people with particular skills and the demand for people with those skills. If there are skill shortages, the output of New Zealand will be less than it would otherwise be.
- 2 'Skill shortages' is a catch-all term used to describe a range of situations in which an employer finds it difficult to find an appropriately skilled person. Skill shortages may arise in a number of circumstances, such as:
 - a A genuine skill shortage occurs when employers have considerable difficulty filling job vacancies simply because there are insufficient job seekers with the required skills. So construction would suffer from a skill shortage of carpenters if experienced carpenters were needed but there were insufficient carpenters with these skills who were currently unemployed and looking for a job.
 - b Recruitment & retention difficulties occur when there is a considerable supply of individuals with the required skills in the potential labour market but they are unwilling to take up employment at current levels of remuneration and conditions of employment. Retention problems are often a major contributor to this condition.
- 3 Economic theory suggests wages should adjust to make the supply and demand for skilled labour equal when skill shortages occur. If there is a lack of skilled labour, then there should be increased competition between firms for the skilled labour, which in turn means that the wages for the skilled workers will be bid up until demand for skilled labour equals supply. This increase in wages encourages more people to train and this should in turn help to alleviate the skill shortage.
- 4 The main reasons why skill shortages may persist in the medium term are: imperfect information in the labour market (employers and employees do not know exactly what skills are available or required); employment relationships are long-term; long-term nature of occupational choice; wage stickiness (both parties will adjust their expectations about wages slowly in response to market conditions); importance of external factors in wage and employment decisions (skill shortages are only one of many factors); and ongoing shocks to the labour market.
- 5 Both the government and the private sector have a role to play in the alleviation of skill shortages. The education and training system is a key means for relieving skill shortages. Firms also have a role to play in the provision of skills for their business. To attract and maintain a highly skilled staff, firms need to offer appropriate wages and fund appropriate levels of firm-specific training. However, in spite of government and private sector activities, it is expected that skill shortages will occur from time to time.
- 6 The difference between employment growth and vacancy growth reflects the extra advertising required by employers for a given rate of employment growth. The high advertised vacancy growth in 2004 was driven by employers needing to advertise a higher proportion of their vacancies as a consequence of not being able to fill them through word of mouth and having to repeat advertisements for vacancies which were difficult to fill.