



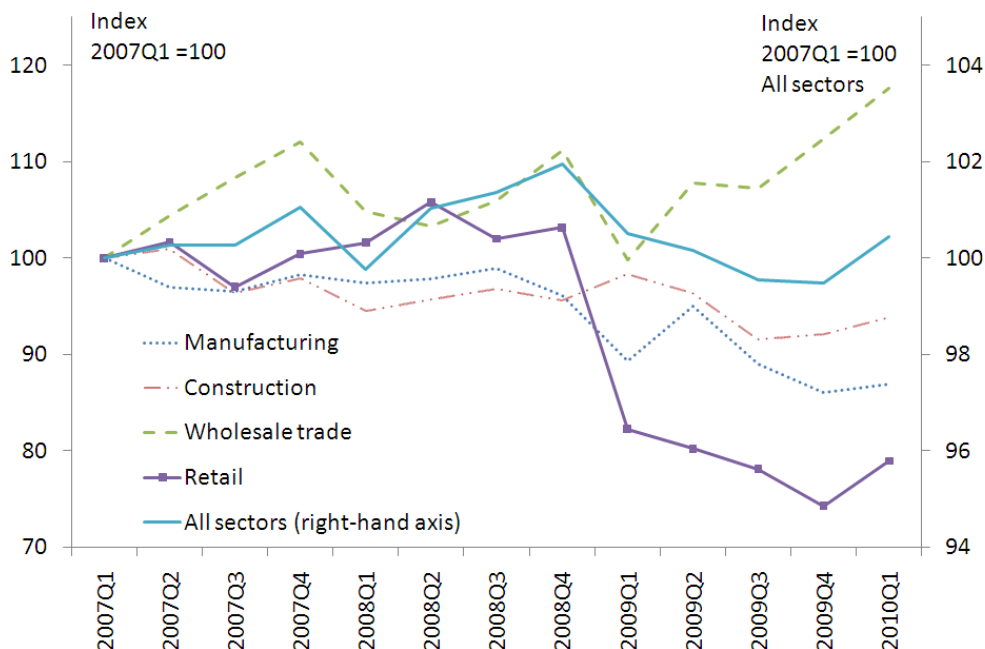
EMPLOYMENT PROSPECTS FOR THE COMING YEAR

This Household Labour Force Survey Investigation report examines recent movements in employment by sector and offers an outlook for employment in each of the main sectors. This follows our previous report that focused on the impact of the recession on youth¹. With the economy recovering and labour market conditions improving, it is an appropriate time to explore where employment growth will come from over the next 12 months or so. This note shows that, rather than the expansion of new sectors, a large share of employment growth over the next year will come from a recovery in sectors that were particularly affected by the recession.

Employment recovers...

The New Zealand economy has been improving since the middle of 2009. The recovery has been supported by firms rebuilding inventories, fiscal and monetary stimulus and a rapid improvement in trading partner growth. Economic growth has now started to flow through to the labour market. The March 2010 quarter Household Labour Force Survey (HLFS) results showed that employment increased by 1.0% from the December 2009 quarter and the unemployment rate fell from 7.1% to 6.0% - the largest quarterly fall since the survey began in 1986. Seasonally adjusted data from the HLFS shows that the industries that have shed the most jobs throughout the recession (manufacturing, construction, wholesale trade, and retail trade) have started to recover (see *Figure 1*).

Figure 1: Seasonally adjusted employment trends in manufacturing, construction, wholesale trade, retail trade, and all sectors



Source: Statistics New Zealand, Household Labour Force Survey. Seasonally adjusted by the Department of Labour.

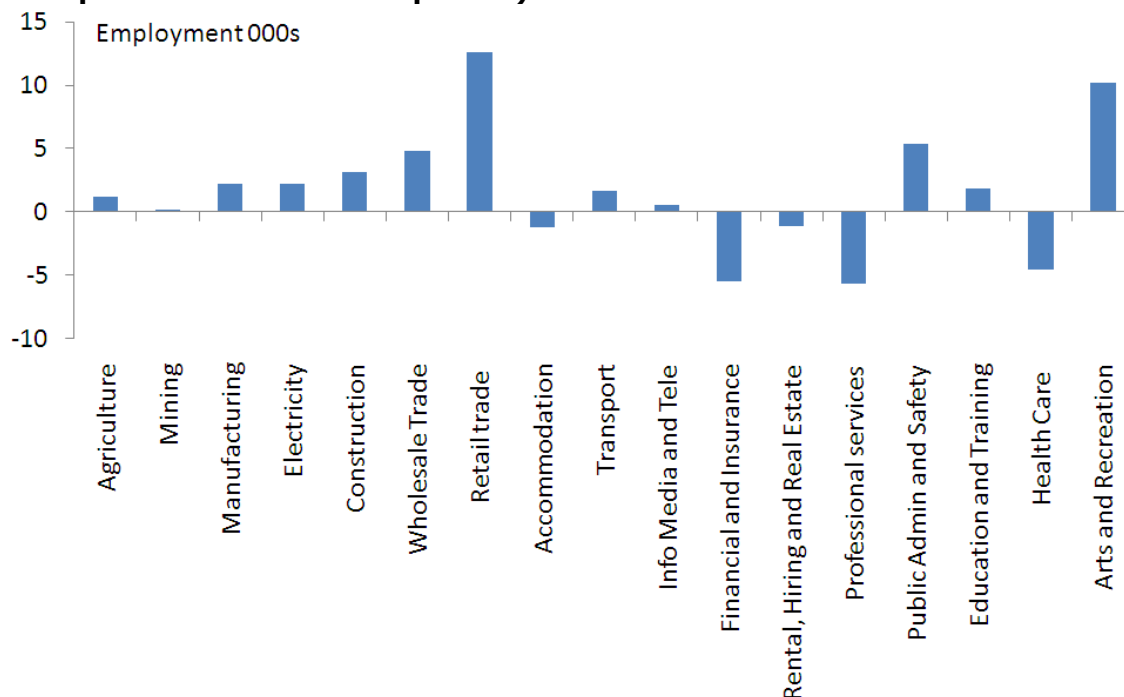
¹ <http://www.dol.govt.nz/publications/lmr/hlfs-investigation-reports/recession-impact/index.asp>



... as cyclical industries grow...

Figure 2 shows strong growth in employment in retail trade, wholesale trade, construction, and manufacturing over the quarter. Public administration and safety, and arts and recreation² also recorded strong employment growth in the March 2010 quarter. The growth in employment is in line with improving employment intentions reported in a range of confidence surveys³. The finance and insurance, and professional services industries had the largest declines over the quarter.

Figure 2: Change in seasonally adjusted employment by industry (December 2009 quarter – March 2010 quarter)



Source: Statistics New Zealand, Household Labour Force Survey. Seasonally adjusted by the Department of Labour.

...and business confidence returns

A recovery in the New Zealand and global economies has meant that firms are feeling more confident about the economic environment and this has translated into a more positive labour market outlook. Firms' own activity expectations and employment intentions have improved significantly since the middle of last year (see Figures 3 and 4). The June 2010 National Bank Business Outlook showed that firms' expectations of their own activity are above historical levels with a net 38.5% of firms expecting increased

² Much of the growth in this sector was driven by personal and other services. Occupations such as writers, artists, entertainment and sports associate professionals are included in the arts and recreation industry.

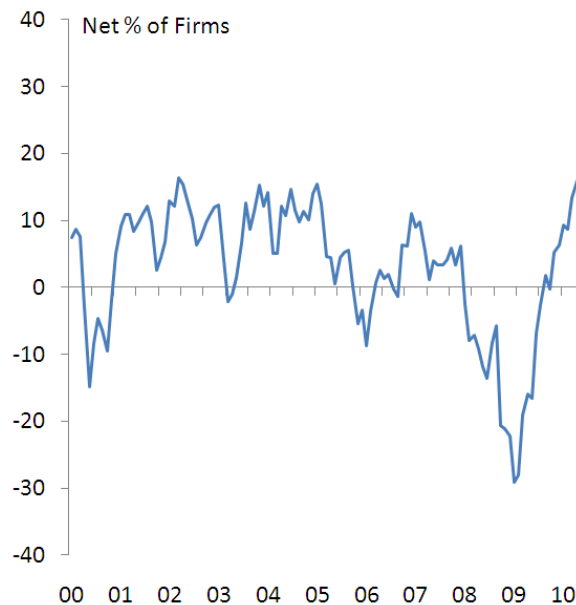
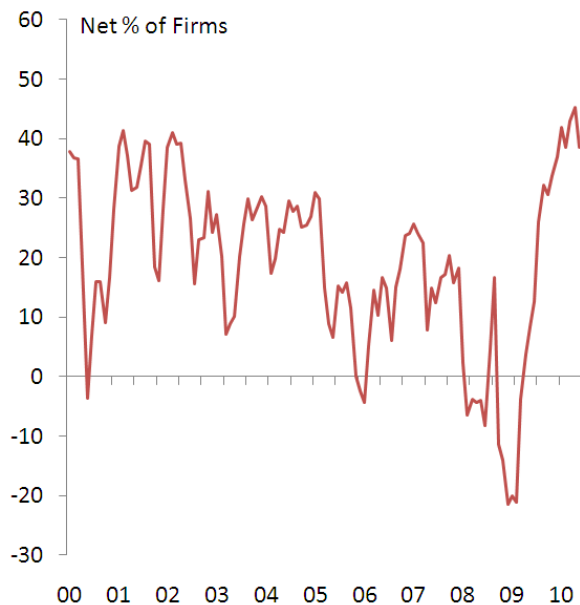
³ This includes NZIER's Quarterly Survey of Business Opinion (QSBO). In the March 2010 QSBO, a net 2.4% of firms intended to increase staff levels in the June 2010 quarter. This compares to a net 35.5% of firms that intended to decrease staff levels during the June 2009 quarter.



activity in the year ahead and 13.4% of firms expecting to increase staffing levels over the next 12 months⁴.

Figure 3: Own activity expectations for the next 12 months

Figure 4: Employment intentions



Source: National Bank Business Outlook

Given the improvement in labour market conditions, what do we expect for employment in the coming year? The Department of Labour's Leading Indicator of Employment indicates that employment will grow between 0.1% and 0.5% in each of the June and September 2010 quarters and slightly more in the December 2010 quarter. This is also in line with the most recent results from the Department's *Jobs Online* showing that the total number of advertised job vacancies increased by 7.5% in the three months to May 2010.

The following section identifies the industries that we think will grow in the next year.

Retail trade

The prospects for retail trade are improving but a number of factors are constraining growth in the sector. Consumer spending increased by 0.2% in the March 2010 quarter and retail activity rose slightly, on average, over the December 2009 and March 2010 quarters. Employment related to this sector is expected to rise modestly in the short term, in line with improvements seen in both consumer and business confidence and the pent up demand for durable goods resulting from the recession. Despite an improving outlook for the retail sector, there are some factors that will act to dampen activity such as increased mortgage payments and ACC levies and a continued redirection of consumer spending behaviour towards saving and away from consumption. The anticipated increase in G.S.T later this year may also have a dampening effect on consumption.

⁴ <http://www.nationalbank.co.nz/economics/outlook/100628/default.aspx>



Residential construction

Residential construction is recovering slowly although the outlook for the sector is positive with a rise in residential building consents recorded in recent months. The Department expects growth in residential activity over the short term given low levels of building relative to population growth. Westpac are predicting 23% growth in residential construction for 2011 reflecting a shortage of housing because of this growth in population⁵. This will see employment related to this sector continue to recover in the short term but not to the extent that we have seen in previous recoveries. Substantial increases in the Official Cash Rate, lack of access to finance, and slowing net migration and building consents issuance⁶ may act as a dampening influence on this growth.

Manufacturing and wholesale trade

Activity in the manufacturing and wholesale trade sectors will continue to rise in the short term. Recent data shows that firms have been rebuilding their stock after depleting their inventory during the economic downturn. The rise in activity in these sectors has also been supported by the recovery in the New Zealand economy, a rapid improvement in trading partner growth, substantially higher commodity prices and a lower New Zealand dollar Trade Weighted Index (compared to the 2008 commodity price peak). The Department expects that this increased activity will continue to support growth in employment in these sectors in coming months, in line with reported improvements in employment intentions.

Health and education

The 2010 Budget included an increase in funding to improve services for health and education over the next four years. Prospects for health and education related employment, therefore, look positive in the short-to-medium term.

Summary

The recovery in economic activity and the labour market are expected to continue over the next year. The most recent results from the HLFS show that industries most affected by the downturn have recorded an increase in employment over the March 2010 quarter. The Department believes that wholesale trade, manufacturing, construction and, to a lesser extent, retail trade are likely to provide the bulk of employment growth over the next 12 months or so.

⁵ Westpac Economic Bulletin (2010), "Update on New Zealand's Housing Shortage".

⁶ The number of new housing units authorised (excluding apartments) fell 9.5 percent in May 2010.