

Quarterly Economic Update Q3 : 2019



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Blair Keenan has an undergraduate degree from the University of Otago. Keenan worked at ANZ as a macro-economist and industry analyst for five years before heading overseas as a researcher for Japan's External Trade Organisation in the UK. While in the UK, he also received his Master's degree in applied environmental economics from the University of London and was an economist at the National Farmers Union of England and Wales.

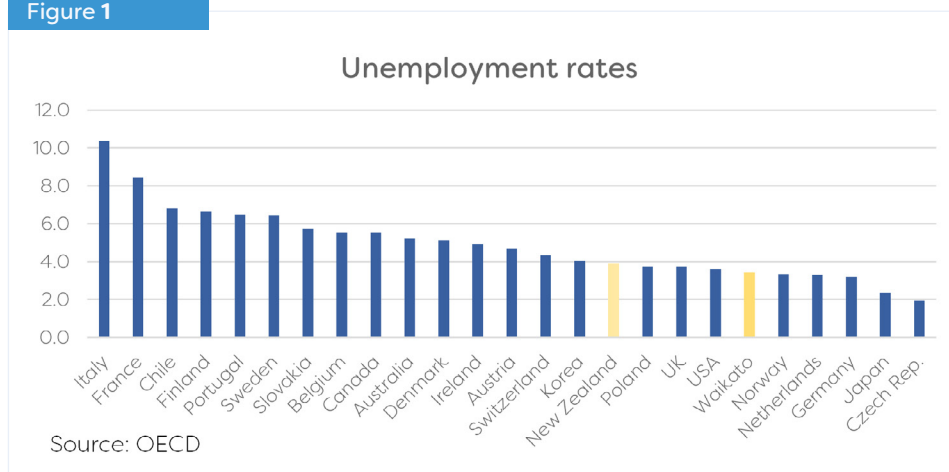
Back in New Zealand, he held several policy roles at Landcare Research, Department of Internal Affairs and Housing New Zealand before his current role as principal economist at Waikato Regional Council. He also continues to collaborate on projects with the University of Waikato, CRIs, central and local government, and a variety of industry groups.

The riddle of the labour market

For the economist, labour represents one of the key inputs to a production process. For the human being, work – or at least, the opportunity for meaningful work – can be a key to our wellbeing. For both, humans and economists finding ways to match demand and supply for labour is an important goal.

For those of us who grew up in the wake of oil crises, stagflation, and radical structural reforms, the phenomenon of high unemployment is a hard memory to shake. Which makes the state of New Zealand's current labour market a rather pleasing surprise – at least at first glance. In the first half of this year, the unemployment rate fell to less than four percent of the labour force. And here in the Waikato region, it was even lower, at just 3.4 percent. If our region was a country, we'd compare pretty well on this count.

Figure 1



If our region was a country, we'd compare pretty well...

These numbers are pretty unusual – at least since the Household Labour Force Survey began collecting this information in the mid-80s. Since 1986, the unemployment rate in the Waikato region has averaged 6.3 percent (8.9 percent in the 1990s, 4.8 percent over the 2000s, and 5.3 per cent over the 2010s). The current levels achieved in the last year have only been achieved briefly in the past, in a few quarters scattered between 2003 and 2007.

But this isn't the only unusual thing that's going on here. As Figure 2 shows, unemployment has continued to trend down over the past couple of years. Figure 3 shows the growth in the number of people employed has been slowing – and in the last year, employment in the Waikato region actually fell slightly. So the number of people employed fell, and yet unemployment hasn't risen. This might seem even more surprising, considering the working age population, from which the labour force is drawn, continues to grow in the Waikato (up by 1.7 percent in the last year).

The simple answer to this riddle is that there is a smaller proportion of the working age population that is actually ready and available to work (i.e. participating in the labour force). The implication is that some of the people no longer in work have left the workforce (i.e. left their jobs and are not available for work) – so even as the working age population has grown over the past year, the labour force shrank. But as Figure 4 shows, this isn't necessarily surprising either. The labour force participation rate has been at historically high levels over the last couple of years, and the recent decline is probably a bit of a correction to more 'normal' levels.

Over the past five years, the number of jobs in the Waikato region has increased by around 25,000

So where have the region's unemployed gone? Some are simply no longer available for work, and therefore aren't technically defined to be unemployed. Whether this fits with their view of the world is unclear; a fall in participation rate can sometimes reflect a 'discouraged worker' effect, whereby people stop looking for work when jobs are hard to find – but that wouldn't seem to fit with the conditions we currently have.

Others have been going into jobs. Over the past five years, the number of jobs in the Waikato region has increased by around 25,000. About one fifth (or 20 percent) of those jobs have been in the construction sector. Collectively wholesale and retail trade,

Figure 2



Figure 3

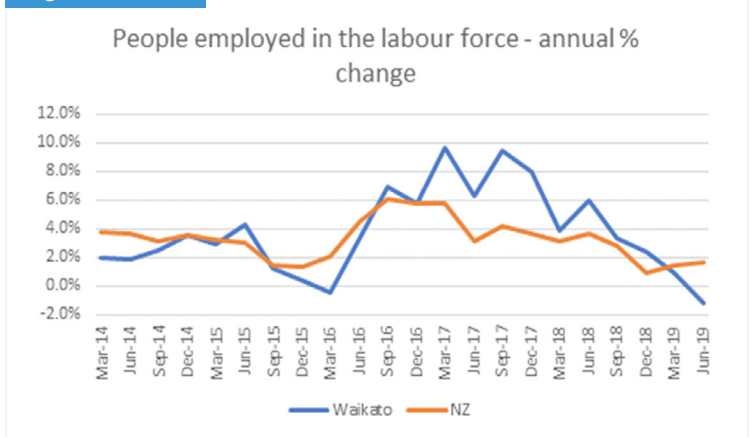
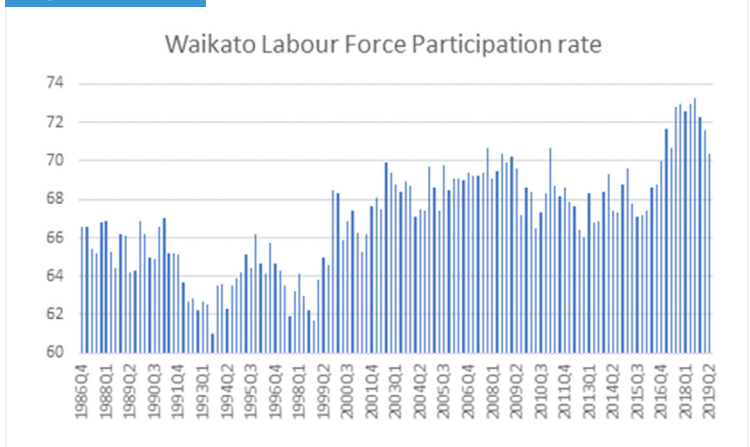


Figure 4



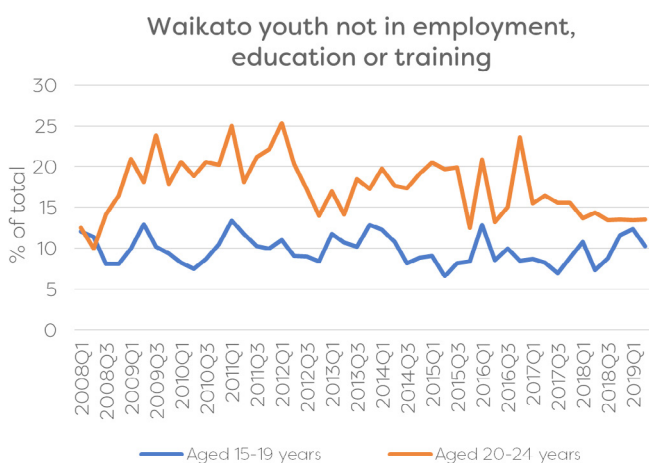
accommodation and food services provided another 19 percent, and the manufacturing industries and health, education and social services provided 17 percent of the total each. The remainder of new jobs were mostly spread around a variety of service industries. But notably, almost all the primary sector industries saw a fall in the number of jobs in the Waikato over the past 5 years.

STILL WORK TO DO

Whilst we're doing well in terms of unemployment, we should not rest on our laurels. The bottom line may look good, there are still groups that are substantially over-represented in our unemployment numbers. Rates amongst Māori (averaging 8.2 percent over the last year) and Pacific peoples (7.2 percent) are consistently higher than overall rates (3.4 percent). If we look at the proportion of 15-24 year olds who are neither employed nor in education or training, they typically represent a relatively high proportion.

And while there is a relatively low proportion of the labour force that is unemployed, there are considerably more who are 'underutilised'. As well as the unemployed, this includes those who are underemployed (for example, if they are in part-time work, but would prefer a full-time job), and others who could potentially be jobseekers, but for one reason or another are not. Together there were more than 30,000 Waikato people in these categories in 2019, and the underutilisation rate stood at 11 percent (remembering that the unemployment rate was just 3.4 percent at June 2019).

Figure 5



Source: Statistics NZ

But while we're doing well in terms of unemployment, we should not rest on our laurels

And even where people have jobs, not all pay particularly well. In part, this probably reflects New Zealand's poor productivity performance over recent times, and perhaps a mismatch of the demand for, and supply of, particular skills.

GETTING ON WITH IT

Getting to where we are has largely been a case of picking the low-hanging labour market fruit. The remaining challenges (or, if you are a glass half-full sort of person, the remaining opportunities) present some rather more difficult riddles. How do we find a way to get the long-term unemployed, or those in those over-represented groups, into jobs? How do we ensure that the labour force has the right skills to meet the requirements of Waikato employers? How can we make sure that the jobs we create are rewarding, and as high a value as possible?

These are the kind of questions that the newly refreshed [Waikato Labour Market Strategy](#) will need to address. The Strategy's key strategic goal is building, attracting and retaining skills and talent. The approach to delivery in the strategy (summarised on pages 14-15 of the linked document) aims to deliver that goal by a focus on priority sectors, engaging employers and developing a pipeline of people with the right skills.

If the strategy can find answers to those riddles, it has the potential to build the region's human capital and create a win-win situation, where people who want to work can get rewarding jobs, benefitting both themselves and the regional economy. •

